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Educational Note Supplement

**Guidance for Assumptions for
Hypothetical Wind-Up and Solvency
Valuations Update –
Effective March 31, 2012**

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Document 212056

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Memorandum

To: All Pension Actuaries

From: Gavin Benjamin, Chair
Committee on Pension Plan Financial Reporting

Date: June 30, 2012

Subject: **Educational Note Supplement: Guidance for Assumptions for Hypothetical Wind-Up and Solvency Valuations Update – Effective March 31, 2012**

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The most recent guidance from the Committee on Pension Plan Financial Reporting (PPFRC) regarding assumptions for hypothetical wind-up and solvency valuations was provided in an [educational note](#) dated May 24, 2012. The guidance concluded that for valuations with effective dates on and after December 31, 2011, an appropriate discount rate for estimating the cost of purchasing a non-indexed group annuity would be determined by the unadjusted yield on Government of Canada (GoC) long-term bonds (CANSIM 39062) increased arithmetically by 90 bps, in conjunction with the UP94 generational mortality tables. This guidance applies to both immediate and deferred pensions and also applies regardless of the overall size of a group annuity purchase.

The May 24 guidance as to estimated purchase costs for non-indexed group annuities was partially based on quotes provided by eight insurance companies on illustrative group annuities using pricing conditions as at December 31, 2011, and supplemented by data from certain actuarial consulting firms on actual group annuity purchases during the fourth quarter of 2011.

In an effort to continue to monitor group annuity pricing, the PPFRC obtained illustrative quotes on a similar basis to those obtained at December 31, 2011, but based on pricing conditions as at March 31, 2012. The illustrative non-indexed quotations at December 31, 2011, and March 31, 2012, may be summarized as follows:

AVERAGE OF THE THREE MOST COMPETITIVE QUOTES (USING UP94 GENERATIONAL MORTALITY TABLES)				
	Large Purchase		Small Purchase	
	31/12/2011	31/03/2012	31/12/2011	31/03/2012
Retirees				
• Discount rate	3.28%	3.43%	3.36%	3.52%
• Spread over CANSIM V39062	+ 0.87%	+ 0.88%	+ 0.95%	+ 0.97%
Deferred vesteds				
• Discount rate	3.46%	3.69%	3.50%	3.70%
• Spread over CANSIM V39062	+ 1.05%	+ 1.14%	+ 1.09%	+ 1.15%

There has been a relatively limited change in the spreads that may be suggested by the March 31, 2012, illustrative quotes compared to the December 31, 2011, illustrative quotes. Further, the actual group annuity purchase data obtained by the PPFRC for the first quarter and early second quarter of 2012 were very limited but, nonetheless, did not exhibit any pattern which caused the PPFRC to conclude that the guidance provided in the May 24 educational note has become inappropriate.

Accordingly, the PPFRC has decided that there is not sufficient evidence at this time to warrant changing the guidance provided in the May 24 educational note.

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