



## ***Final***

# **Final Standards – Revisions to the Practice-Specific Standards for Pension Plans – Reporting of Incremental Cost and Sensitivity Information on a Hypothetical Wind-up or Solvency Basis**

**Actuarial Standards Board**

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### **3250 SOLVENCY VALUATION**

.01 *A solvency valuation typically is a form of a hypothetical wind-up valuation required by law and the actuary should apply the Standards of Practice for a hypothetical wind-up valuation unless*

*otherwise required by law, or*

*otherwise permitted by law and stipulated by the terms of an appropriate engagement. [Effective December 31, 2010]*

.02 *Examples of exceptions permitted by law for the preparation of a solvency valuation under the law of certain jurisdictions include*

*use of a value of assets other than market value,*

*use of one or more assumptions that are not best estimate assumptions, or*

*exclusion of certain benefits from the valuation.*

### **3260 REPORTING: EXTERNAL USER REPORT**

.01 *An external user report on work pursuant to section 3200 should*

*include the calculation date, the report date, and the next calculation date,*

*describe the sources of membership data, plan provisions, and the pension plan's assets, and the dates at which they were compiled,*

*describe the membership data and any limitations thereof,*

*describe the tests applied to determine the sufficiency and reliability of the membership data and plan asset data for purposes of the work,*

*describe the assets, including their market value and a summary of the assets by major category,*

*describe the pension plan's provisions, including the identification of any pending definitive or virtually definitive amendment,*

*disclose subsequent events of which the actuary is aware, whether or not the events are taken into account in the work, or, if there are no subsequent events of which the actuary is aware, include a statement to that effect,*

*state the type of each valuation undertaken under the terms of the appropriate engagement, and*

*describe any significant terms of the appropriate engagement that are material to the actuary's advice.*

- .02 *For each going concern valuation undertaken by the actuary, the external user report should*
- describe the actuarial cost method,*
  - describe the method used to value the pension plan's assets,*
  - describe the assumptions used to determine the actuarial present value of projected benefits, including the extent of any margin for adverse deviations included with respect to each such assumption, and provide the rationale for each assumption that is material to the actuary's advice,*
  - describe the rationale for any assumed additional returns, net of investment management expenses, from an active investment management strategy as compared to a passive investment management strategy, included in the discount rate assumption,*
  - report the funded status at the calculation date and the service cost or the rule for calculating the service cost between the calculation date and the next calculation date,*
  - disclose any pending but definitive or virtually definitive amendment of which the actuary is aware, and whether or not such amendment has been included in determining the funded status and the service cost,*
  - describe any contingent benefits provided under the pension plan and the extent to which such contingent benefits are included or excluded in determining the funded status and the service cost,*
  - describe any benefits that are not contingent benefits and that have been excluded in determining the funded status and the service cost, and*
  - if there is no provision for adverse deviations, include a statement to that effect.*

- .03 *If an external user report includes one or more going concern valuations then the external user report should, for at least one such valuation included in the report, describe and quantify the gains and losses between the prior calculation date and the calculation date.*

- .04 *If an external user report includes one or more going concern valuations, other than a valuation for the purpose of determining the maximum funding permitted by law for a “designated plan”, as that term is defined in the Income Tax Regulations (Canada), then the external user report should, for at least one such valuation included in the report, report the effect of using a discount rate 1.0% lower than that used for the valuation on*
- the actuarial present value, at the calculation date, of projected benefits allocated to periods up to the calculation date, and*
- the service cost or the rule for calculating the service cost between the calculation date and the next calculation date.*
- .05 *For each hypothetical wind-up valuation and solvency valuation undertaken by the actuary, the external user report should*
- describe the methods used to determine the reported liabilities,*
- describe the assumptions used to determine the reported liabilities and provide the rationale for each assumption that is material to the actuary’s advice,*
- describe the basis for inclusion and the amount considered in respect of a letter of credit of which the pension plan is the beneficiary,*
- report the funded status at the calculation date,*
- include a description of the postulated scenario, and*
- include a description of the extent to which contingent benefits provided under the pension plan are included or excluded in determining the funded status.*
- .06 *If an external user report includes one or more hypothetical wind-up valuations or solvency valuations then, for any one such hypothetical wind-up valuation or solvency valuation, the external user report should*
- report the incremental cost between the calculation date and the next calculation date,*
- report the effect on the hypothetical wind-up or solvency liabilities, at the calculation date, of using a discount rate 1.0% lower than that used for the valuation, and*
- if the external user report does not include a going concern valuation, describe and quantify the gains and losses between the prior calculation date and the calculation date;*

unless

*the pension plan is a “designated plan” which has, as members, only persons “connected” with the employer as those terms are defined in the Income Tax Regulations (Canada), or*

*the hypothetical wind-up valuation or solvency valuation is based on an extrapolation of results disclosed in a previous external user report.*

.07 *An external user report that provides advice on funding should*

*describe the determination of contributions or a range of contributions between the calculation date and the next calculation date,*

*if contributions are fixed by the terms of the plan or other governing documents, then either*

*report that the contributions are adequate to fund the pension plan in accordance with the law, or*

*report that the contributions are not adequate to fund the pension plan in accordance with the law, and*

*describe the contributions required to fund the pension plan adequately in accordance with the law,*

*describe one or more possible ways in which benefits may be reduced such that the contributions would be adequate to fund the pension plan in accordance with the law, or*

*describe a combination of increases in contributions and reductions in benefits that would result in the funding being adequate to conform to the law.*

.08 *An external user report should provide the following four statements of opinion, all in the same section of the report and in the following order,*

*a statement regarding membership data, which should usually be, “In my opinion, the membership data on which the valuation is based are sufficient and reliable for the purpose of the valuation.”,*

*a statement as to assumptions, which should usually be, “In my opinion, the assumptions are appropriate for the purpose(s) of the valuation(s).”,*

*a statement as to methods, which should usually be, “In my opinion, the methods employed in the valuation are appropriate for the purpose(s) of the valuation(s).”, and*

*a statement as to conformation, which should be, “This report has been prepared, and my opinions given, in accordance with accepted actuarial practice in Canada.”*

.09 *An external user report should be sufficiently detailed to enable another actuary to examine the reasonableness of the valuation. [Effective August 23, 2012]*

### Membership data

- .10 Any assumptions and methods used in respect of insufficient or unreliable membership data would be described.
- .11 The actuary may describe limitations on the tests conducted in the review of the data which has been determined to be sufficient and reliable for purposes of the valuation(s). For example, the actuary may describe that the data tests will not capture all possible deficiencies in the data and reliance is also placed on the certification of the plan administrator as to the quality of the data.

### Types of valuations

- .12 The external user report may provide information with respect to multiple valuations, but would, as a minimum,

if the pension plan is a registered pension plan and is not a “designated plan”, as that term is defined in the Income Tax Regulations (Canada), provide information with respect to

a going concern valuation, if required by law or by the terms of an appropriate engagement,

a hypothetical wind-up valuation under the scenario regarding the circumstances resulting in the wind-up that, subject to paragraph 3260.19, maximizes the wind-up liabilities, unless the pension plan and the law do not define the benefits payable upon wind-up, and

any other hypothetical wind-up or solvency valuation required by law,

if the pension plan is a “designated plan” as that term is defined in the Income Tax Regulations (Canada), provide information with respect to

a going concern valuation, if required by law or by the terms of an appropriate engagement,

a hypothetical wind-up valuation under the scenario regarding the circumstances resulting in the wind-up that, subject to paragraph 3260.19, maximizes the wind-up liabilities, unless the pension plan and the law do not define the benefits payable upon wind-up or the plan has, as members, only persons “connected” with the employer as that term is defined in the Income Tax Regulations (Canada), and

any other hypothetical wind-up or solvency valuation required by law,

and

if the pension plan is not a registered pension plan, include information with respect to the types of valuations required by the circumstances of the work.

### **Significant terms of appropriate engagement**

- .13 Significant terms of the appropriate engagement may include matters such as
- the use of a specified actuarial cost method,
  - the use of a specified asset valuation method,
  - the exclusion of benefits for purposes of a valuation, as permitted by law,
  - the extent of margins for adverse deviations, if any, to be included in selecting assumptions,
  - a policy to fund only the minimum contributions required by law, and
  - specified methodology for the determination of contribution requirements in excess of the requirements of law.

### **Reporting gains and losses**

- .14 The reported gains and losses for a going concern valuation would include the gain or loss due to a change in the actuarial cost method or a change in the method for valuing the assets and each significant change in assumptions and plan provisions determined at the calculation date. If an amendment to the pension plan prompts the actuary to change the assumptions, the actuary may report the combined effect of the amendment and the resultant change in assumptions.

### **Discount rate sensitivity**

- .15 When following the recommendations to illustrate the effect of a change in discount rate on a valuation, the actuary would maintain all other assumptions and methods as used in the underlying valuation.

### **Methods**

- .16 For each valuation included in the external user report for which there was a prior valuation, the description of the actuarial cost method would include a description of any change to the actuarial cost method used in the prior valuation and the rationale for such change.
- .17 For each valuation included in the external user report for which there was a prior valuation, the description of the method to value the assets would include a description of any differences in change to the asset valuation method used in the prior valuation and the rationale for such change.

### **Assumptions**

- .18 For each valuation included in the external user report for which there was a prior valuation, the description of assumptions would include a description of each change to the assumptions from the assumptions used in the prior valuation.

**Scenario that maximizes wind-up liabilities**

- .19 In reporting the funded status of the pension plan under the scenario regarding the circumstances resulting in the wind-up that maximizes the wind-up liabilities, the actuary would include benefits that are contingent upon the scenario regarding the circumstances resulting in the wind-up or required by law. However, the actuary may disregard
- benefits that are contingent upon a factor other than the scenario regarding the circumstances resulting in the wind-up or as required by law, and
- possible plan member earnings after the calculation date.

**Statements of opinion**

- .20 Where different statements of opinion apply in respect of different purposes of the valuation, the above requirements may be modified but would be followed to the extent practicable.
- .21 While a separate statement regarding assumptions would generally be included in respect of each purpose of the valuation, the statements regarding assumptions may be combined where the statements do not differ between some or all of the valuation's purposes. The report would indicate clearly which statement regarding assumptions applies to each of the valuation's purposes.
- .22 While a separate statement regarding methods would, generally, be included in respect of each purpose of the valuation, the statements regarding methods may be combined where the statements do not differ between some or all of the valuation's purposes. The report would indicate clearly which statement regarding methods applies to each of the valuation's purposes.