



## Memorandum

**To:** All Fellows, Affiliates, Associates, and Correspondents of the Canadian Institute of Actuaries, and other interested parties

**From:** Conrad Ferguson, Chair  
Actuarial Standards Board  
Geoffrey Melbourne, Chair  
Designated Group

**Date:** June 20, 2019

**Subject:** **Promulgation of the Mortality Table Referenced in the Standards of Practice for Pension Plans (Subsection 3530)**

*Document 219073*

On January 17, 2019, the Actuarial Standards Board (ASB) published an [initial communication](#) regarding its proposal to promulgate mortality improvement scale MI-2017 for commuted value (CV) calculations for pension plans, to be used in combination with base mortality rates underlying the 2014 Canadian Pensioners' Mortality Table (CPM2014), effective November 1, 2019.

Comments were received from four consulting firms, one individual actuary, and two submissions from one regulator (one technical, regarding whether CPM2014 should be projected backwards; the other in relation to the impact on public service pension plans).

The technical comment from the regulator (regarding how MI-2017 would be applied to CPM2014 given that CPM2014 already embeds several years of mortality projections) was repeated in other submissions – similarly, multiple parties commented that harmonization with other CV changes underway would be important. Generally, the comments received did not support promulgation of MI-2017 for CV calculations. A brief summary of the comments received is provided in the appendix.

**The ASB considered this promulgation at its June 11, 2019 meeting, and decided not to proceed with this promulgation at this time.** The ASB takes seriously its mandate of consistency in assumptions across practice areas, where appropriate, but believes that the comments raised as part of this consultation make it prudent to gather further

information before revisiting this promulgation of mortality improvements for pension plan CV calculations. Other information to be considered may include:

- Updated CPP/QPP actuarial reports and the underlying mortality assumptions, which have some relevance in this area;
- Canadian mortality improvement experience data subsequent to that used to develop MI-2017;
- Any research initiative to update CPM2014 base mortality, which would be appropriate given the five years that have elapsed since its release (and the even older underlying mortality experience data);
- Developments in the life insurance practice, including implications of IFRS 17 on decisions with respect to promulgations in general and specifically for mortality improvements, as well as any potential updates to the mortality improvement promulgation prior to IFRS 17 becoming effective; and
- Input from the Actuarial Standards Oversight Council.

Stakeholders will be notified by the ASB in accordance with its due process of any intention to revisit this promulgation, whenever this comes up for review again.

In the final analysis, the ASB still is of the view that the mortality improvement scale is an area where consistency of practice would be appropriate. However, the considerations above and the relatively modest impact that a change now would have on current pension commuted values were given more weight in the final decision not to go ahead with the promulgation at this time.

CF, GM

## Appendix

Party Providing Comments	Extracts/Summary
Individual actuary	<ul style="list-style-type: none"> <li>▪ We don't know what the improvement will be and this change does not appear to be significant enough to warrant the cascading changes that will have to occur – programming, communication, etc.</li> <li>▪ It seems we are heading toward changing this “estimate” more frequently, which does not seem appropriate given the “false” accuracy associated with the scale.</li> </ul>
Consulting firm 1	<ul style="list-style-type: none"> <li>▪ Consistent with the preliminary view of the majority of the DG, our preference would be that CPM-B be retained for purposes of Subsection 3530 until a more substantial and material update to the mortality basis.</li> <li>▪ Nevertheless, beyond arguments of materiality and complications potentially created by switching scales, we have no strong objection to MI-2017 being promulgated under Subsection 3530.</li> </ul>
Consulting firm 2	<ul style="list-style-type: none"> <li>▪ While we, like the DG, were in favour of retaining CPM-B, we support the adoption of MI-2017 to ensure consistency among practice areas.</li> <li>▪ It would be in the public interest to update CPM2014 with more recent Canadian data.</li> </ul>
Consulting firm 3	<ul style="list-style-type: none"> <li>▪ The arguments in the consultation for retaining CPM-B are clear and unambiguous, and we do not believe that the arguments provided for adopting MI-2017, predominantly to promote consistency among practice areas without adjusting for the fact that the underlying populations that the mortality improvement scale will be used for are different, are sufficient to warrant moving forward with this promulgation.</li> </ul>
Consulting firm 4	<ul style="list-style-type: none"> <li>▪ Given the recent slowdown in mortality improvement rates, it is inappropriate to adopt a mortality improvement scale that increases assumed life expectancy relative to the improvement scale that is currently used.</li> <li>▪ Since the publication of the MI-2017 improvement scale does not invalidate the CPM-B improvement scale, which is the scale currently used to calculate CVs, there is no compelling reason for changing the mortality improvement scale at this time.</li> <li>▪ The selection of an appropriate mortality improvement scale for calculating CVs should override the objective of imposing consistency in assumptions between actuarial practice areas.</li> </ul>

Regulator	<ul style="list-style-type: none"><li>▪ Establishing an ultimate improvement rate is a subjective choice, and we feel it would be wise to ascertain the new improvement scales that the CPP and QPP will be using in their actuarial valuations (which will appear in 2019) before amending the standard of practice.</li><li>▪ While consistency among areas of practice can be a significant issue for the CIA, we believe that consistency even within the area of pension practice is just as significant.</li><li>▪ Putting off the amendment to the standard of practice would obviate undermining the use of the CPM-B scale for actuarial valuations produced in 2018 and 2019, since it is inevitable that auditors and regulatory bodies will question the choice of CPM-B if MI-2017 is integrated into standard of practice 3530.</li></ul>
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