Canadian Institute of Actuaries
Institut canadien des actuaires

EDUCATIONAL NOTE SUPPLEMENT

Guidance for Assumptions for Hypothetical Wind-Up and Solvency Valuations Update – Effective September 30, 2023, and Applicable to Valuations with Effective Dates on or after September 30, 2023, and no later than June 29, 2024

October 24, 2023

Guidance for Assumptions for Hypothetical Wind-Up and Solvency Valuations Update – Effective September 30, 2023, and Applicable to Valuations with Effective Dates on or after September 30, 2023, and no later than June 29, 2024

Committee on Pension Plan Financial Reporting

Document 223156

Ce document est disponible en français.

The actuary should be familiar with relevant other guidance. They expand or update the guidance provided in an educational note. They do not constitute standards of practice and are, therefore, not binding. They are, however, intended to illustrate the application of the Standards of Practice, so there should be no conflict between them. The actuary should note however that a practice that the other guidance describe for a situation is not necessarily the only accepted practice for that situation and is not necessarily accepted actuarial practice for a different situation. Responsibility for the manner of application of standards of practice in specific circumstances remains that of the members. As standards of practice evolve, other guidance may not reference the most current version of the Standards of Practice; and as such, the actuary should cross-reference with current Standards.

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Preamble

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 the educational note supplement dated July 24, 2023. This guidance applied for valuations with effective dates on and after June 30, 2023 (but not later than June 29, 2024).

The PPFRC has conducted its quarter-end review of group annuity pricing conditions as at September 30, 2023, and recommended to the AGC assumptions for hypothetical wind-up and solvency valuations for valuations with effective dates on or after September 30, 2023 (but no later than June 29, 2024).

In order to provide timely information to actuaries, the AGC has approved the guidance summarized in this memorandum. In accordance with the Institute's *Policy on Due Process for the Approval of Guidance Material Other than Standards of Practice and Research Documents*, this educational note supplement has been prepared by the PPFRC and has received final approval for distribution by the AGC on October 20, 2023.

Your feedback

Questions or comments regarding this educational note supplement may be directed to the chair of the PPFRC.

1. Guidance as at September 30, 2023

The PPFRC has determined that an appropriate discount rate for estimating the cost of purchasing a non-indexed annuity or a fully consumer price index (CPI)-indexed annuity (prior to any adjustment for sub- or super-standard mortality) would be consistent with the educational note issued on March 23, 2023, with the exception of revisions to applicable durations and/or spreads as outlined in the following table.

Educational note/ supplement	Mortality table[1]	Non-indexed immediate and deferred pensions *Duration[2]: Spread relative to unadjusted CANSIM V39062*			Fully CPI-indexed pensions *Spread relative to unadjusted CANSIM V39057*
		Low duration	**Medium duration**	**High duration**	**All durations**
Sep 30, 2023	CPM2014Proj	7.4: + 180 bps	9.3: + 170 bps	11.1: + 160 bps	- 20 bps
Jun 30, 2023	CPM2014Proj	7.7: + 180 bps	9.8: + 170 bps	11.7: + 160 bps	- 20 bps
Mar 31, 2023	CPM2014Proj	7.8: + 160 bps	9.9: + 160 bps	12.0: + 160 bps	- 20 bps
Dec 31, 2022	CPM2014Proj	7.7: + 160 bps	9.7: + 160 bps	11.7: + 160 bps	- 20 bps
Sep 30, 2022	CPM2014Proj	7.8: + 140 bps	9.9: + 150 bps	11.9: + 150 bps	- 40 bps

2. Very low duration annuities

The PPFRC has been monitoring hypothetical quotes for groups with durations lower than the low duration indicated in the table above. As at September 30, 2023, the PPFRC continues to believe that a reasonable approach to derive the spread for very low duration annuities is to extrapolate from the spreads at the low and medium durations. Other approaches may also be reasonable.

3. Very high duration annuities

The PPFRC has been monitoring hypothetical quotes for groups with durations higher than the high duration listed in the table above and believes that these spreads are likely to be less than the spreads indicated at the high duration block. As at September 30, 2023, the PPFRC continues to believe that a reasonable approach to derive the spread for very high duration annuities is to decrease the spread by approximately 0.1% (10 bps) for each one-year increase in duration above the duration of the high duration block (11.1 as at September 30, 2023). Other approaches may also be reasonable.

There are no other changes to the guidance.

[1] "CPM2014Proj" refers to the 2014 Canadian Pensioners' Mortality Table (CPM2014), combined with mortality improvement scale CPM Improvement Scale B (CPM-B) with no adjustments for sub- or super-standard mortality.
[2] Duration is to be determined for the portion of the liabilities assumed to be settled through the purchase of annuities, based on the medium duration discount rate.

4. Retroactive application

If an actuary has already prepared a report (e.g., funding valuation report, solvency or transfer ratio report) with an effective date on or after September 30, 2023, before the publication of this guidance, the actuary would consider paragraphs 1710.36 through 1710.43 of the Standards of Practice to determine whether it is necessary to withdraw or amend the report.

Additional details on this guidance will be published in the form of an explanatory report, in accordance with the *Policy on Due Process for the Approval of Guidance Material other than Standards of Practice and Research Documents*.

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