

Memorandum

To: All Fellows, Affiliates, Associates and Correspondents of the Canadian Institute of Actuaries and Other Interested Parties

From: Charles C. McLeod, Chairperson
Actuarial Standards Board

Date: September 22, 2009

Subject: **Standards of Practice – Practice-Specific Standards for Actuarial Evidence – Paragraph 4330.02 - Mortality Table**

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Promulgation of New Mortality Table

Paragraph 4330.02 of the Standards of Practice reads as follows: *“The actuary should assume death rates in accordance with a mortality table promulgated from time to time by the Actuarial Standards Board for the purpose of these calculations, modified, if appropriate, to reflect the member’s or the member’s spouse’s impaired health, if medically determinable.”*

The current mortality table is the GAM83 Table.

At its meeting on September 21, 2009, the Actuarial Standards Board (ASB) decided to promulgate the use of the following mortality table effective January 1, 2010: The UP-94 Table projected forward to the year 2020 using mortality projection Scale AA. (The UP-94 Table and Projection Scale AA were published in the *Transactions* of the Society of Actuaries, Volume XLVII (1995)). The following provides a link to the new table (<http://www.actuaries.ca/members/publications/2009/209001e.xls>).

The process being used to implement this promulgation is as described in Section D of the ASB’s “Policy on Due Process for the Adoption of Standards of Practice” (“Due Process”). An Initial Communication was published on June 3, 2009. The ASB’s Due Process has been followed in making this promulgation.

Criteria for the Adoption of Standards of Practice

The new mortality table meets the criteria set out in Section B of the ASB’s Due Process.

1. It advances the public interest through the use of a more current mortality table than the one used at the present time.

2. It provides for the appropriate application of professional judgment within a reasonable range. Although the new table is prescribed (as is the current mortality table), there continue to be circumstances where an actuary should or may use judgment.
3. Use of the new table is practical for actuaries with relevant training.
4. The new mortality table is considered to be unambiguous.

Rationale for the Change

The new mortality table is the same as that proposed in the initial communication of June 3, 2009. As stated in the initial communication, the new table was proposed for two main reasons:

1. It is a better representation of current and expected future mortality than the current table.
2. For consistency with the mortality table being used when determining pension commuted values (see paragraph 3830.01 of the Standards of Practice).

As noted below, the ASB received a number of comments. Most recommended that projection should not extend beyond the year 2015 (none supported projection to 2020). The ASB considered the comments received but concluded that projection to 2020 was more appropriate.

Considerable discussion within the ASB took place in 2008 before deciding to adopt, for pension commuted values, the UP-94 Table projected with scale AA to 2020. Although some parts of the revised pension commuted value Standard of Practice were controversial, there were relatively few comments about the mortality assumption.

The projection to 2020 is based partly on the general consensus that current mortality is already lighter than the UP-94 Table projected to 2009. It also reflects the expected future impact of past events (e.g., medical developments, improved lifestyles) that have taken place but have not yet been fully exhibited in current mortality experience.

Despite the comments made in response to the initial communication, the ASB concluded that there was insufficient justification either

- (a) to use a projection to a date earlier than 2020, or
- (b) to adopt a different mortality table for determining the value of a pension in marriage breakdown calculations than that used for pension commuted value calculations.

The ASB noted that the current pension Standard of Practice for determining the commuted value of a pension is prescribed in some provinces for marriage breakdown calculations. The use of the UP-94 Table, projected with scale AA to 2020, for marriage breakdown calculations will provide consistency in all provinces.

The ASB also noted that the 2008 Task Force on Pension Value Consistency had recommended the adoption of the UP-94 Table projected with Scale AA to 2020.

Comments Received and ASB Response

Comments were received from 20 individual members on this subject. As well, the Actuarial Evidence Committee (AEC) of the Canadian Institute of Actuaries (CIA) and the Marriage Breakdown Working Group (MBWG) submitted reports.

There was no objection to the use of the UP-94 Table with projection scale AA. The current table (GAM83) is badly out of date and needs to be updated. The main issue raised by respondents was that projection should not be beyond 2015. None of the respondents supported projection to 2020. The major reasons given for recommending projection only to 2015 (or earlier) were:

1. “Although different jurisdictions vary somewhat in the details, the general rule in Canadian Family Law is that events subsequent to the valuation date cannot be taken into consideration when valuing family assets for property equalization purposes.” (extract from comments made by MBWG)

Response of the ASB

We observe that a valuation of a pension is impossible without taking into account events subsequent to the calculation date, for example, inflation (in the case of indexed pensions), future interest rates and investment conditions, and future mortality (even if no projection takes place).

It should be the role of the actuary to provide his or her best estimate of future events. If a judge should decide not to accept the recommendation of the actuary, the judge’s decision will govern. But the actuary should not select and recommend an assumption, nor should the ASB promulgate an assumption, solely because that is what a judge will or may accept.

As noted above, the ASB considered that projection to 2020 is reasonably foreseeable based on conditions as of today.

It should also be noted that paragraph 1310.01 of the Standards of Practice states that “*If accepted actuarial practice conflicts with the law, then the actuary should comply with the law, but should report the conflict and, if practical and useful, report the result of applying accepted actuarial practice.*” Thus, if the law in a particular jurisdiction definitively prevents or restricts the recognition of mortality improvements subsequent to the calculation date, then Subsection 1310 is likely to be relevant.

2. An assumption of higher mortality is more appropriate in marriage breakdown situations than in pension commuted value calculations because
 - (a) The average age of couples separating may be higher than that of people commuting pensions, and
 - (b) Unmarried/divorced people have higher mortality than married people.

Response of the ASB

The ASB considered these observations, but did not have any recent studies that quantified these differences. The ASB was not convinced that these differences were significant enough to justify a different mortality table for marriage breakdown

calculations than for pension commuted value calculations. In addition, a move to a generational mortality table (see below) would address the first observation.

Use of a Generational Mortality Table

Although the ASB considers that the use of a generational mortality table is more equitable than projection to a fixed date, for the time being it is not promulgating the use of a generational mortality table.

As stated previously, the ASB urges the Canadian Institute of Actuaries to proceed as fast as possible with the development of a more recent mortality table (plus projection scales) based on Canadian pensioner mortality experience. Once this becomes available, it is likely that the ASB will require its use for both pension commuted value calculations and marriage breakdown calculations.

The ASB wants to give notice that:

1. The use of a generational mortality table is likely to be required in the future, possibly as early as January 1, 2012.
2. If a new Canadian pensioner mortality table is not available soon, it is likely that the ASB will require the use of the UP-94 generational table with Scale AA projection. The ASB is aware of some deficiencies associated with this table, but it is the best available at this time.

The ASB, however, is open to any recommendations as to a more suitable table and/or a more appropriate projection scale.

Process Followed

As noted earlier, the ASB considers that it has followed its Due Process, specifically Section D.

Some comments were critical of the process followed by the ASB, suggesting that there had not been sufficient communication with actuarial evidence practitioners at some steps in the process.

Response of the ASB

Significant communication and discussion (beyond that called for by the ASB's Due Process) has taken place since the publication of the report of the Task Force on Pension Value Consistency in March 2008. In particular:

- Representatives of the Actuarial Evidence Committee attended meetings of the ASB in May 2008, May 2009 and August 2009.
- Representatives of the ASB attended the parts of the annual Actuarial Evidence Seminars in September 2008 and 2009 when this topic was discussed.
- In September 2008, the Actuarial Evidence Committee requested that the ASB suspend work on the development of a new Standard of Practice for marriage breakdown pension value calculations in order to allow the committee to develop and present its own recommendations to the ASB. The ASB agreed with this request but made it clear that (with the exception of the discount rate assumption where a "replacement theory approach" was appropriate) there should be a valid

justification if the recommended assumptions were different from those in the Pension Commuted Value Standard.

- Following the publication of the initial communication, submissions were made to the ASB by individuals and by groups of actuarial evidence practitioners. These were reviewed by the ASB.
- There have been many additional phone calls or discussions between small groups of ASB members and small groups of actuarial evidence practitioners.

As noted above, work on a new Standard of Practice for marriage breakdown pension value calculations (which the ASB had originally hoped to complete at the same time as the pension commuted value standard) was deliberately suspended in the hope of reaching a consensus with actuarial evidence practitioners. The ASB regrets that it has not been possible to reach such an agreement (at least in respect of the mortality assumption). But this result has been reached despite considerable discussion with actuarial evidence practitioners (or their representatives), not because of a lack of it.

Effective Date

The new mortality table should be used for calculations on or after January 1, 2010.

Early implementation is not permitted.

Some respondents requested an earlier effective date, but this is not possible since the ASB's Due Process requires that the effective date be at least three months after the publication of the ASB's decision regarding promulgation (i.e., the publication of this document).

Other Changes

Other changes to Section 4300 (Capitalized Value of Pension Plan Benefits for a Marriage Breakdown) are being considered by the Actuarial Standards Board in conjunction with representatives of the CIA's Actuarial Evidence Committee. These will be the subject of a later communication.

CCM