

Memorandum

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

From: A. David Pelletier, Chair
Actuarial Standards Board

Stephen J. Butterfield, Chair
Designated Group

Date: December 21, 2012

Subject: **Final Standards – Revisions to the Practice-Specific Standards for Pension Plans (Part 3000)**

Document 212111

INTRODUCTION

The revised [Practice-Specific Standards for Pension Plans \(Part 3000\)](#) were approved by the Actuarial Standards Board (ASB) on December 19, 2012. The revised standard with changes tracked against the current standard can be found [here](#).

BACKGROUND

The ASB established a designated group (DG) in 2011 to review the current Practice-Specific Standards for Pension Plans (the Pension Standards) and ascertain whether any amendments should be made to them. The DG consists of Stephen Butterfield (Chair), Normand Gendron, Dean Newell, Martin Cyrenne, Greg Heise, and Nancy Yake.

The DG consulted with the Committee on Pension Plan Financial Reporting (PPFRC) and identified a number of issues with respect to the Pension Standards. A [notice of intent](#) (NOI) was issued on June 4, 2012, and an [exposure draft](#) (ED) was issued on September 20, 2012.

The DG received six submissions on the ED. Three were from individual actuaries, one was from an actuarial consulting firm, one was on behalf of five large pension funds, and one summarized the comments made at the November 2012 Pension Seminar. One was entirely concerned with discrepancies between the English and the French versions of the ED and edits have been made to the French version in response to these concerns.

SUMMARY OF COMMENTS

Comment

There is inconsistent use of “Standards of Practice” and “standards” throughout the document.

Response of the DG

The document now consistently refers to the “standards”.

Comment

Why has the phrase “including the identification of any *definitive* or *virtually definitive* pending amendment of which the actuary is aware” been deleted from the sixth bullet of paragraph 3420.01?

Response of the DG

The requirement to disclose pending amendments is contained in the 12th bullet of paragraph 3420.01 and need not be repeated in the sixth bullet.

Comment

Pension plans that are exempt from solvency funding regulations should be exempt from the reporting requirements of paragraph 3260.06 since the users of the report will have little interest in this information.

Response of the DG

The DG believes that the information required to be reported under paragraph 3260.06 is useful even for plans that are exempt from solvency funding regulations and no changes have been made to the standards.

Comment

Two submissions discussed the situation where the client provides no guidance on the assumptions and whether the actuary should be permitted to include margins, required to include margins, or prohibited from including margins in such circumstances. One submission suggested that the actuary should be permitted to include margins, and one suggested that the actuary should be prohibited from including margins.

Response of the DG

The DG continues to believe that the onus for determining the appropriate margins lies with the plan sponsor and not with the actuary. To permit the actuary to include margins without guidance from the plan sponsor places an inappropriate expectation on the actuary to include margins. The DG is of the opinion that circumstances where the client refuses to provide guidance will be rare and no special provision should be made in the standards for such circumstances.

Comment

The standards appear to permit an inappropriately high going concern discount rate in situations where a small plan with relatively high investment management fees elects to pay those investment management fees from outside the pension plan. They seem to permit the actuary to include added value for active investment management equal to the investment management fees.

Response of the DG

The DG continues to believe that the current standards are appropriate and provide the proper balance in allowing an actuary to use judgment in developing an appropriate going concern discount rate. The DG encourages the PPFRC to consider whether additional guidance or education on this subject may be warranted.

Comment

The exemptions provided under paragraph 3260.06 should also apply to paragraph 3260.04.

Response of the DG

The DG previously considered this issue and determined that it was not appropriate to provide the same exemptions under paragraph 3260.04 as provided under paragraph 3260.06.

Comment

The wording of paragraph 3240.07 is awkward.

Response of the DG

The DG agreed with the comment and deleted the last phrase of paragraph 3240.07 and added new paragraph 3240.14 to address this issue.

Comment

The word “relevant” should be added to paragraph 3255.03 and paragraph 3260.19.1 as these paragraphs are similar to paragraph 3255.02.

Response of the DG

The DG agreed with the comment and made the requested changes.

Comment

There should be no requirement to report the incremental cost for the defined contribution portion of a hybrid plan as this information is not useful and information on the funding requirements for the defined contribution provision is already provided for under paragraph 3260.07.

Response of the DG

The DG believes that the comment has merit, but nevertheless believes that it is preferable to include the incremental cost for the defined contribution provision so no changes were made to the standards.

Comment

The change made to paragraph 3260.09 should also be made to paragraphs 3330.04 and 3420.03.

Response of the DG

Agreed.

Comment

Wording changes were suggested to make paragraph 3260.13.1 clearer.

Response of the DG

The DG felt that the proposed revised wording did not make the paragraph any clearer and elected to make no changes to the paragraph.

Comment

The word “upwards” should be inserted in paragraph 3260.15.1 so that the standard is consistent with the educational note.

Response of the DG

The DG prefers the word “increase” and has changed “adjusted” to “increased”.

Comment

Many valuations for financial reporting do not disclose the current service cost between the calculation date and the next calculation date and so the 11th bullet of paragraph 3420.01 is inappropriate.

Response of the DG

The DG agrees and has made changes to reflect the comment.

OTHER CONSIDERATIONS

Based on input from the staff of the Accounting Standards Board, the term “accounting for” has been replaced by “financial reporting of” throughout the standard.

DUE PROCESS

The ASB’s Policy on Due Process for the Adoption of Standards of Practice has been followed in the development of these revisions to the Practice-Specific Standards for Pension Plans.

ADOPTION OF PROPOSED STANDARD OF PRACTICE

The effective date of the final standards is December 30, 2012.

EARLY IMPLEMENTATION

Early implementation is permitted.

ADP, SJB