

## 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  
Conrad Ferguson, Chair  
Designated Group

**Date:** March 6, 2013

**Subject:** **Notice of Intent – Amendment to the Practice-Specific Standards for Pension Plans – Mortality Assumption for Pension Commuted Values**

**Comment Deadline:** **March 26, 2013**

*Document 213013*

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### INTRODUCTION

The Actuarial Standards Board (ASB) proposes to revise the Practice-Specific Standards for Pension Plans to introduce a promulgation clause for the mortality assumption prescribed for the calculation of pension commuted values. Promulgation clauses are used in our standards for assumptions which are identified as requiring revision from time to time.

The promulgation clause will better accommodate a timely response to changing mortality experience over time and will make this standard consistent with other standards where the ASB prescribes the mortality basis, most notably paragraph 4330.02 of the actuarial evidence practice-specific standards for the calculation of pension values on marriage breakdown.

### BACKGROUND

Recent studies in Canada and elsewhere have shown improvements in life expectancy for pensioner populations that exceed the rate of improvement expected in the UP-94 Generational Table by a noticeable margin. The Pension Experience Subcommittee was appointed by the CIA's Research Committee to study Canadian pension plan mortality experience and to develop and maintain pensioner mortality tables and projection scales. The subcommittee presented its [preliminary findings](#) at the CIA Pension Seminar in November 2012 and is expected to release a draft research report for comments in the coming months.

This could mean that a change in the prescribed mortality basis may be required for both the calculation of pension commuted values and the calculation of capitalized values of pension benefits on marriage breakdown. The ASB feels it would be desirable and more efficient if the process for updating the mortality basis under both standards was consistent.

The ASB appointed a Designated Group (DG) on December 5, 2012 responsible for developing changes to existing standards. The DG includes Conrad Ferguson (Chair) and Laura Newman.

### **PROPOSED REVISION**

The proposed change is to introduce a promulgation clause in paragraph 3530.01 of the standards. Such a clause would allow the ASB to promulgate a table for commuted value calculations in a timely fashion following a decision that there is a need to adopt a new mortality table. It would allow the ASB to follow the same process in adopting a change to the mortality basis for pension commuted values as would be used for the calculation of capitalized values of pension benefits on marriage breakdown.

The proposed promulgation clause would not immediately change the assumptions in the current standards. It only allows for a more effective and consistent process to change the promulgated assumption when required in future. An opportunity for comments from interested parties is included in the promulgation due process.

Details on the due process for promulgation of an assumption can be found in section E of the ASB [Policy on Due Process for Adoption of Standards of Practice](#) and are summarized below.

1. A Designated Group would be set up by the ASB to review the promulgated assumption and prepare an initial draft communication to members. With respect to the calculation of pension commuted values, this initial draft communication would be discussed with the Committee on Pension Plan Financial Reporting (PPFRC) prior to being issued.
2. The ASB would review the initial draft communication prepared by the DG and decide to issue the initial communication, require changes, or to not proceed with the revision to the promulgated assumption.
3. Once approved by the ASB, the initial communication would then be issued to the membership and other interested parties for comments. There would be an appropriate period to make comments. A report would then be prepared on the comments received and discussed by DG. The DG would then report back to the ASB.
4. If major concerns arise out of the comments received, a revised communication may be issued with opportunity to comment further.
5. Once all due process is followed, the ASB would issue a final communication with the revised promulgated assumption. Typically, the effective date of the revision would take into consideration any practical matters associated with implementing a new promulgated assumption and would normally be at least three months after the final communication is published.

Since the work of the Pension Experience Subcommittee is not yet complete, and given the due process time constraints, the ASB does not expect the effective date for any newly promulgated table to be before March 31, 2014.

### **NEED FOR AND BENEFITS OF PROPOSED REVISIONS**

Currently, the standards do not allow for a timely response to changing mortality experience for pensioners. Since the current mortality table is hard-coded in the standards, following due process for implementing a change to the mortality table would, in the view of the ASB, unnecessarily delay implementation of a new mortality table for pension commuted values.

Furthermore, the current standard is not consistent with other standards when it comes to prescribing the mortality basis. This is particularly relevant in this case, since a change in

mortality basis for pensioners would likely affect both the calculation of pension commuted values, which would require a change to the standards, and the calculation of capitalized values of pension benefits on marriage breakdown, which would require a promulgation, likely both at or around the same time.

The proposed revisions to standards will make the current standard consistent with other standards and provide for a more timely response to changing experience over time and thus better serve the public.

### **TIMELINE AND EARLY IMPLEMENTATION**

The ASB hopes to publish an exposure draft in the second quarter of 2013 and that final standards would be adopted in the third quarter of 2013. Early adoption is not relevant to the proposed change.

For clarity, this timeline does not relate to a change in the current mortality assumption, but rather to a proposed change in standards providing in future for the use of the promulgation approach in the due process for changing the mortality assumption for pension commuted values.

### **DESIRED FEEDBACK**

The ASB is soliciting feedback on this notice of intent from the PPFRC, the pension regulatory authorities, members of the CIA, and other stakeholders, as appropriate. Comments on the proposed changes are invited **by March 26, 2013**. Please send them, preferably in an electronic format, to Conrad Ferguson at [cferguson@morneaushepell.com](mailto:cferguson@morneaushepell.com), with a copy to Chris Fievoli at [chris.fievoli@actuaries.ca](mailto:chris.fievoli@actuaries.ca). No other forums for the receipt of comments are currently planned.

Due process was followed in the development of this notice of intent.

ADP, CF