

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
Ellen Whelan, Chair
Designated Group

Date: May 31, 2013

Subject: **Final Standards – Revisions to Part 6000 Practice-Specific Standards for Post-Employment Benefit Plans and Paragraph 1110.25.1 of Part 1000 General Standards**

Document 213025

INTRODUCTION

The revised Practice-Specific Standards for Post-Employment Benefit Plans were approved by the Actuarial Standards Board (ASB) on January 31, 2013. The document represents a complete rewrite of the current part 6000. In addition, the definition of funded status in paragraph 1110.25.1 was revised. A [notice of intent](#) (NOI) was published on June 28, 2010, with respect to proposed changes to part 6000, with a comment period ending on August 30, 2010. An [exposure draft](#) (ED) was published on March 8, 2012, with a comment period ending on May 15, 2012. Significant comments from the exposure draft are highlighted in this memorandum.

The members of the Designated Group (DG) responsible for developing these revisions to the Standards of Practice are Ellen Whelan (Chair), Christiane Bourassa, Stephen Butterfield, Nick Gubbay, Cameron Hunter, Laura Newman, and Nancy Yake.

COMMENTS RECEIVED

Comments on the ED were received from nine members or organizations: eight from members of the Canadian Institute of Actuaries (CIA) and one from the Accounting Standards Board staff of the Canadian Institute of Chartered Accountants.

Many comments concerned minor additions or deletions of words to improve the clarity of the document or remove redundancies. The DG considered these suggestions and made changes to the revised part 6000 to reflect this input, as appropriate.

Some comments suggested an expansion of the content of the standards in specific areas, such as credibility. The DG agrees that it may be useful to have additional guidance on some of these topics, and has identified that the CIA should consider developing educational notes for the following topics:

- a. Credibility of data, i.e., health care claims data;
- b. Extrapolations of valuation results;
- c. Wind-up calculations for post-employment benefit plans;
- d. Enhanced guidance on the selection of the assumed health care trend rates; and
- e. Guidance on the adjustment of assumptions for the impact of aging.

Other comments related to the proposed reorganization of part 6000 and the resulting duplication of wording. The proposed organization of part 6000, as presented in the ED, is significantly different from that of the current standard. In the ED, part 6000 has been restructured by the type of work being completed with respect to post-employment benefit plans. In particular, one section of part 6000 includes the standards that are specifically applicable to wind-up valuations, another section includes standards specific to valuations for financial reporting purposes, and a third includes standards that are relevant for valuations for other purposes such as funding. Although the DG recognizes that this structure results in some duplication of words that might be the same or similar for different types of work, it was agreed that this format was preferable and also consistent with part 3000, the Practice-Specific Standards for Pension Plans.

A summary of the more significant comments received on the ED, and the DG's responses, are as follows:

Comment

There was a comprehensive analysis and comment letter received which largely focused on a number of significant issues related to the first opinion option in the second bullet point in paragraph 6420.02. This wording permits the actuary who is completing post-employment valuation work for financial reporting purposes to state that the preparers of the financial statements have selected the assumptions and the actuary expresses no opinion on them. The commenter suggests that the standards should provide that the actuary must either (i) state that the assumptions are in accordance with accepted actuarial practice, or (ii) report that he or she is using the work of another person and that the assumptions are not in accordance with accepted actuarial practice. The commenter believes that "no opinion on the assumptions" should not be permitted.

DG response

The DG agrees with many of the comments made in this submission, and notes that the issues are challenging. The valuation of a post-employment benefit plan is heavily dependent on complex assumptions such as the long-term cost of health care. Often preparers of the financial statements rely on the actuary to provide significant input into the development of the assumptions. However, there are circumstances where the preparers of the financial statements select one or more assumptions with little or no input from the actuary. In these cases, the actuary may consider the assumptions to be

reasonable and be willing to prepare financial information based on these assumptions, but the actuary cannot report that these assumptions are in accordance with accepted actuarial practice because the actuary cannot confirm that all of the requirements of the standards have been met.

It should be noted that the wording of the opinion options in the second bullet point in 6420.02 of the ED is identical to that in the current part 6000 and to the corresponding wording in part 3000 (Practice-Specific Standards for Pension Plans).

The DG and the ASB agreed that the wording in paragraph 6420.02 would remain unchanged, but that the wording of paragraph 6410.15 would be revised. Paragraph 6410.15 now reminds the actuary to consider the application of Rule 6 if the assumptions are selected by the preparers of the financial statements and are not in accordance with accepted actuarial practice.

The ASB considers the matters raised to be an important issue across all practice areas, and will be considering them further in a broader context during 2013.

Comment

Comments were received regarding the treatment of plan amendments, whether definitive or pending. For example, one comment suggested that the actuary should be permitted to recognize any pending amendment for the purposes of a funding valuation, provided that the appropriate disclosures are made.

DG response

Only minor wording changes were made to clarify the paragraphs related to the treatment of plan amendments. With respect to a funding valuation, paragraph 6210.04 of the ED permits the recognition of a pending amendment only if such amendment increases the value of the benefits. The DG feels strongly that this wording in the ED should be retained, to avoid the situation where the actuary may reflect a plan amendment that reduces the plan liabilities, at the employer's request, and then the employer may be unable to effectively implement such change.

Comment

There were several requests for additional examples.

DG response

The intent of the standards is not to provide exhaustive lists of methods, plans, or assumptions, as some will surely be missed. Where appropriate the listed examples have been revised or expanded to add clarification or support the understanding of the document, but no changes have been made to add more examples to simply expand a sample list.

Comment

There were a few suggested changes relating to each section of the standard on data, in particular the plan provision data regarding the actuary's responsibility for obtaining appropriate data.

DG response

The DG acknowledges that obtaining plan provision data for the valuation of a post-employment benefit plan can be challenging and that misunderstandings of plan provisions can be a source of error in the actuary's work. It is therefore important for the actuary to take the appropriate steps to determine the plan provisions with sufficient accuracy for the purposes of the valuation.

In view of the comments received, revisions have been made to better describe the actuary's responsibility with respect to plan provisions, claims, and census data.

Comment

There were comments regarding the sensitivity analysis requirements in what are now paragraphs 6230.01 and 6230.16 of the final standards, which suggested that some clarification was required.

DG Response

The DG agreed that some clarification was needed, and has expanded paragraph 6230.16 to address sensitivity testing for other assumptions in addition to the discount rate.

Comment

There were a few comments received regarding the discount rate selection for the actuary's advice on the financial position, financial condition, funded status, or funding of a post-employment benefit plan. Comments received were regarding the use of fixed income securities for selecting discount rates and that funding and investment policies and plan sponsor objectives should be taken into account when selecting the discount rates.

DG response

The DG agrees that some clarification regarding the selection of the discount rate would be appropriate. Revisions have been made to specify that the discount rate assumption would be determined by reference to the yields on fixed income investments, or alternatively, for a funded plan only, the expected investment return of the plan assets. The comments received did not suggest this was an inappropriate approach, and no alternate approach was suggested.

Comment

There were a few comments received regarding the paragraphs that include "the next calculation date would not normally be more than three years after the current calculation date" or "The actuary would not normally extrapolate data more than three years from the effective date of the data." Commenters said the guidance should be more prescriptive and the period of three years might be too long for some benefits.

DG response

The DG considered this issue at length and recognizes that a three-year period is consistent with other industry practices, including pension plan valuations and auditing requirements for post-employment benefit plans. Three years also represents a reasonable period of time for the actuary to project membership data and valuation results in most cases. The DG feels strongly that this guidance should be included in the standard as

there may be no other time limit applicable to the projection of some post-employment benefit plan valuation results (e.g., there is no applicable legislation). The DG acknowledges that the current wording allows for the actuary to advise the plan sponsor that the next valuation should be completed sooner than the three-year period, if appropriate, and therefore the wording should be appropriate for all plans.

Comment

One comment suggested that the term “accounting” should be changed to more appropriate wording.

DG Response

Based on input from the staff of the Accounting Standards Board, the term “accounting” has been replaced with the term “financial reporting” throughout part 6000, as appropriate. Other parts of the standards will be updated over time.

Comment

One comment suggested that the term “post-employment benefit plan” should be changed to reflect the fact that some plans covered by part 6000 provide benefits during employment.

DG Response

The DG agrees that some, but not many, plans covered by part 6000 do provide benefits during employment. The term “post-employment benefit plan” is widely used within the industry, the accounting profession, and the actuarial profession, and a change to the term used in the Canadian actuarial standards would likely generate confusion. In section 6100, the scope of part 6000 is clearly defined and a number of examples are provided to illustrate the plans that are covered, including some that provide benefits during employment.

ADOPTION OF PROPOSED STANDARD OF PRACTICE

The effective date of the final standard of practice is June 30, 2013, and early implementation of the updated standards is encouraged.

DUE PROCESS

The Actuarial Standards Board’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 Post-Employment Benefit Plans.

ADP, EW