

4000—ACTUARIAL EVIDENCE

TABLE OF CONTENTS

4100	SCOPE	4003
4200	GENERAL	4006
4210	Circumstances of the work.....	4006
4220	Financial interest of the actuary	4007
4230	Role as expert.....	4007
4240	Testimony.....	4008
4250	Capitalized Values.....	4008
4300	ACTUARIAL EVIDENCE CALCULATIONS, OTHER THAN CAPITALIZED VALUE OF PENSION PLAN BENEFITS FOR A MARRIAGE BREAKDOWN AND CRIMINAL RATE OF INTEREST	4010
4310	Scope	4010
4320	Assumptions and methods.....	4010
4330	Contingencies	4011
4340	Application of law	4011
4400	CAPITALIZED VALUE OF AMOUNTS OTHER THAN PENSION PLAN BENEFITS FOR A MARRIAGE BREAKDOWN	4012
4410	Scope	4012
4420	Assumptions and methods.....	4012
4500	CAPITALIZED VALUE OF PENSION PLAN BENEFITS FOR A MARRIAGE BREAKDOWN....	4014
4510	Scope	4014
4520	Method	4014
4530	Assumptions	4019
4540	Reporting: external user report.....	4022
4600	CALCULATION OF CRIMINAL RATE OF INTEREST	4023
4610	Scope	4023
4620	Data	4023
4630	Method	4023
4700	REPORTING	4025
4710	External user report	4025
4720	Internal user report	4027

4100 SCOPE

- .00 Part 1000 applies to work within the scope of this part 4000.
- .01 The standards in part 4000 apply to actuarial evidence work.
- .02 With respect to actuarial evidence work:
- An expert is an actuary who is qualified by knowledge, skill, experience, training, or education to render an opinion or otherwise testify concerning the matter at hand; and
 - An expert opinion is a conclusion drawn from actuarial knowledge and experience or from the application of one or more actuarial methods to a body of data.
- .03 An expert opinion may be provided in a written report, oral or written testimony, or both.
- .04 The provision of an expert opinion which is actuarial evidence work and which involves a practice area such as insurance or pensions is work in both that practice area and the actuarial evidence practice area. The actuary would refer to the standards applicable to that practice area, in addition to the standards in part 4000.

Examples

- .05 Examples of actuarial evidence work are:
- Determination of the capitalized value of pecuniary losses arising as a result of an event such as personal injury, death, or wrongful dismissal from employment;
 - Determination of capitalized values of pensions in marriage breakdown proceedings;
 - Expert opinions given in litigation arising from work completed in respect of a pension plan or an insurance business;
 - Work as an expert advisor to a mediating official, such as a judge;
 - Determination of effective rates of interest in cases of alleged charging of criminal interest rates; and
 - Provision of an expert opinion with respect to another actuary's work that is being challenged or in cases of alleged professional negligence.

.06 Work in a practice area, such as insurance or pensions, may be performed in an adversarial environment but not involve an anticipated expert opinion for a dispute resolution proceeding. Such work would not normally be considered to be actuarial evidence work. Examples of such work, where the standards in part 4000 are not applicable, are:

- Pension plan valuations or costings related to union negotiations, or actuarial assistance with the merger of pension plans or the valuation of a pension plan in connection with the sale of a business; and
- Actuarial assistance with the valuation of an insurer, the merger of insurers, or the acquisition of an insurer.

Fact evidence

.07 The standards in part 4000 do not apply to the work of an actuary who is providing only fact evidence, and not an expert opinion. For example, an actuary testifying in his or her own defense in a proceeding related to professional negligence would normally be providing fact evidence, and not an expert opinion. As another example, an actuary may be providing evidence in a dispute resolution proceeding regarding his or her involvement in work performed in a practice area such as insurance or pensions. If the circumstances were not adversarial and there was no anticipation of a dispute resolution proceeding at the time the work was performed, the actuary's evidence in the dispute resolution proceeding would normally be fact evidence and not an expert opinion. The standards in part 4000 would apply, however, if the actuary's role includes providing an expert opinion in a dispute resolution proceeding, where such opinion is expected or required to be independent.

Litigation advice

.08 The terms of an appropriate engagement may require that the actuary provide only litigation advice, other than an expert opinion that is expected or required to be independent, such as assisting counsel or a client in identifying and analyzing legal or actuarial issues, advising in connection with relevant case law, and preparing for cross-examination of opposing witnesses. In such cases, provided that the actuary makes it clear that the work product does not represent an expert opinion that is actuarial evidence work, the standards in part 4000 would not apply.

.09 The terms of an appropriate engagement may require that the actuary provide both litigation advice that is not actuarial evidence work and also an expert opinion. If work related to the expert opinion meets the definition of actuarial evidence work, then the standards in part 4000 would apply to that aspect of the engagement.

Additional guidance

- .10 The actuary may be uncertain as to whether all or part of the engagement meets the conditions to be classified as actuarial evidence work. In such case, the actuary would seek clarification from the chair or vice-chair of the Committee on Actuarial Evidence of the Canadian Institute of Actuaries and the standards in part 4000 would apply for that portion of the engagement that is actuarial evidence work.

4200 GENERAL

4210 CIRCUMSTANCES OF THE WORK

- .01 *When performing actuarial evidence work, the actuary should take into account the circumstances of the work. [Effective December 31, 2013]*
- .02 The circumstances of the work would include:
- Relevant legislative or regulatory provisions;
 - Rules of civil procedure and rules of court in the relevant jurisdictions;
 - Other rules that may be applicable to the dispute resolution proceeding;
 - Established legal principles relevant to the work; and
 - Terms of an appropriate engagement under which the work is being performed.
- .03 Relevant legislative or regulatory provisions may include:
- Provisions relating to allowable pecuniary damages under automobile insurance legislation or regulations;
 - Provisions related to division of assets under a marital property act or regulations; and
 - Provisions relating to pensions, benefits, insurance, or workers' compensation.
- .04 Rules of civil procedure and rules of court, as well as other rules that may be applicable to the dispute resolution proceeding, may include:
- Mandated assumptions;
 - Required content and format of reports;
 - Role of experts; and
 - Duties and obligations of experts.
- .05 Established legal principles relevant to the work may address:
- Issues relevant to the actuary's engagement; and
 - Role and obligations of experts.
- .06 The terms of an appropriate engagement would define the role of the actuary and the purpose, context, and scope of the work. An engagement for actuarial evidence work would not be appropriate if it would impair the ability of the actuary to perform independent and objective work.

- .07 Significant terms of an appropriate engagement may stipulate one or more of:
- Assumptions to be used in the actuary's work;
 - Methods to be used in the actuary's work; and
 - Various scenarios to be considered by the actuary.
- .08 An engagement may be appropriate if its terms require that the actuary assist his or her client or counsel with challenging the application or a particular interpretation of existing law, regulation, court practice, or established legal principles relevant to the work. Nothing in part 4000 is intended to prevent the actuary from assisting with a challenge of the application or a particular interpretation of existing law, regulation, court practice, or established legal principles relevant to the work, even if the result of such challenge of the application or a particular interpretation would otherwise, in the opinion of the actuary, be inconsistent with accepted actuarial practice. If an engagement would impair the actuary's ability to conform to the rules, such engagement would not be appropriate.

4220 FINANCIAL INTEREST OF THE ACTUARY

- .01 *The amount of the actuary's compensation should not be related to the outcome of the matter (e.g., dispute resolution proceeding) in connection with which the work is done. [Effective December 31, 2013]*
- .02 For example, contingency fees that depend on the outcome of the dispute resolution proceeding would not be appropriate.

4230 ROLE AS EXPERT

- .01 *The actuary's actuarial evidence work should be independent and objective.*
- .02 *The actuary's role as an expert should be to assist the court or other entity in the dispute resolution proceeding in its search for truth and justice, and the actuary should not be an advocate for one side of the matter in dispute.*
- .03 *Where the terms of the engagement require that the actuary provide both litigation advice that is not actuarial evidence work and also an expert opinion that is actuarial evidence work, the litigation advice role should not influence the independence and objectivity of such expert opinion. [Effective December 31, 2013]*
- .04 Where the actuary is providing both litigation advice that is not actuarial evidence work and an expert opinion that is actuarial evidence work, the actuary would have a clear understanding of the differences between the two roles included in the engagement. The actuary would clearly identify in any work product which component of the engagement is involved, and would ensure that the litigation advice role does not impair his or her ability to perform the actuarial evidence work.

4240 TESTIMONY

- .01 *The actuary's testimony should be independent, objective, and responsive.*
- .02 *Where the terms of the engagement require that the actuary provide both litigation advice that is not actuarial evidence work and also an expert opinion that is actuarial evidence work, the actuary should be aware that full disclosure of all work and work products with respect to both roles within the engagement may be required in any testimony.*
- .03 *In the course of providing testimony in the dispute resolution proceeding, the actuary should:*
- *Present a balanced view of the factors surrounding the actuarial aspects of the questions put to him or her;*
 - *Answer all the questions that are asked on the basis of his or her own best assessment of all the relevant factors;*
 - *Apply best efforts to ensure that the evidence is clear and complete, that the information the actuary is providing will not be misunderstood or misinterpreted, and that the audience will be able to utilize it correctly; and*
 - *Indicate when a particular issue or question falls outside his or her expertise.*
- .04 *The actuary should respond truthfully and fully to questions posed in the course of providing testimony, but the actuary need not volunteer information which is beyond the scope of the question posed. [Effective December 31, 2013]*
- .05 *Testimony is the actuary's communication presented in the capacity of an expert witness in any dispute resolution proceeding where the actuary is examined or cross-examined. Such testimony may be oral or written, direct or responsive, formal or informal.*
- .06 *When responding to a direct question relating to any error or shortcoming the actuary perceives in the report of another actuary or expert witness, the actuary would respond truthfully and fully, notwithstanding paragraph 4710.08.*

4250 CAPITALIZED VALUES

- .01 *The actuary should calculate the capitalized value of future amounts payable in respect of an individual utilizing the actuarial present value method. [Effective December 31, 2013]*
- .02 *Actuarial evidence work frequently deals with the determination of the capitalized value of amounts for purposes of a dispute resolution proceeding. These amounts are often payable in respect of an individual and sometimes in respect of a group of individuals. Such calculations must often be performed within a framework established by law, regulation, and/or legal precedent.*
- .03 *Payment of the capitalized value is an alternative to payment of defined amounts to which an individual is entitled. Often the courts and others have recourse to require payment of a capitalized value when payment of the defined amounts comprising that value is not practical or not desired.*
- .04 *Calculation of the capitalized value is within the domain of actuarial practice.*

- .05 The actuary would not calculate the capitalized value of future amounts that are subject to any contingent event as the present value of an annuity certain. For example, when utilizing the actuarial present value method in respect of a life annuity, the capitalized value of each life annuity payment is weighted by the probability of survival to the date of that payment. Under this method, the present value of possible overcompensation in an individual circumstance is balanced by the present value of possible undercompensation.

4300 ACTUARIAL EVIDENCE CALCULATIONS, OTHER THAN CAPITALIZED VALUE OF PENSION PLAN BENEFITS FOR A MARRIAGE BREAKDOWN AND CRIMINAL RATE OF INTEREST

4310 SCOPE

- .01 The standards in section 4300 apply to an actuary's advice when performing actuarial evidence calculations, other than for the capitalized value of pension plan benefits for a marriage breakdown and for a criminal rate of interest.

4320 ASSUMPTIONS AND METHODS

- .01 *The assumptions and methods selected by the actuary should be appropriate in the aggregate, taking into account the purpose of the work and the parts of the standards that are applicable to the actuary's work.*
- .02 *The assumptions selected by the actuary should be best estimate assumptions, unless it is appropriate to incorporate margins for adverse deviations in accordance with the circumstances of the work.*
- .03 *The actuary should ensure that any assumptions stipulated by the terms of the engagement are plausible.*
- .04 *The assumptions and methods used by the actuary should take account of the circumstances of the work, including applicable law, regulation, court practice, and established legal principles relevant to the work.*
- .05 *The assumptions and methods selected by the actuary should not be influenced by the party to the dispute resolution proceeding that has retained the actuary. [Effective December 31, 2013]*
- .06 Examples of the circumstances of the work where it would be appropriate to incorporate a margin for adverse deviations in an assumption include, but are not limited to:
- The assumption or the requirement for a margin for adverse deviations is mandated by law, regulation, court practice, or established legal principles relevant to the work; and
 - The actuary's work relates to a practice area such as insurance or pensions, and the standards for that practice area require or permit the inclusion of a margin for adverse deviations for such work.
- .07 Notwithstanding paragraph 4320.03, the terms of an appropriate engagement may stipulate assumptions that are not considered plausible by the actuary or methods that are not considered appropriate by the actuary. In such case, if the actuary performs the work in accordance with the terms of the engagement, the actuary would report the deviation from accepted actuarial practice in Canada.

- .08 The terms of the engagement may require that the actuary complete calculations for related items, such as one calculation for the capitalized value of a pecuniary loss and another calculation for the income tax gross-up. The underlying assumptions would be consistent for the calculation of these related items. In this example, the actuary would utilize the same underlying assumptions, such as the same real rate of interest, the same rate of price inflation, and the same mortality assumption, for both the calculation of the capitalized value of the loss and the calculation of the income tax gross-up.
- .09 Where there are insufficient data to support a particular assumption regarding a contingency incorporated in the actuary's work, the actuary may present a range of results.

4330 CONTINGENCIES

- .01 *The actuary should consider incorporating any contingency where, in the actuary's opinion, there are adequate legal, theoretical, or empirical grounds to justify this. The actuary should disclose the omission from the work of any contingencies he or she considers material.*
- .02 *If the actuary gives advice on the effect of a specific contingency, that advice should be based on an assessment of that contingency, both alone and in combination with other factors, using appropriate actuarial methods. [Effective December 31, 2013]*
- .03 Where the actuary has prepared results under more than one scenario, the actuary's report would show the results of the actuarial calculations separately for each scenario and identify which contingencies have been incorporated in each scenario. For example, the results of the actuarial calculations under one scenario may include precise recognition of only net investment return and mortality. The results taking into account any other provision for contingencies would be prepared under another scenario and would be reported separately.
- .04 Recognition of a contingency may create a positive or negative effect on a calculation.

4340 APPLICATION OF LAW

- .01 In a situation where law, regulation, court practice, or established legal principles relevant to the work mandates that a method or assumption be adopted in an actuarial evidence calculation, a broad interpretation of accepted actuarial practice in Canada is appropriate, so that in most such situations the law, regulation, court practice, or established legal principles relevant to the work would be considered to be within the range of accepted actuarial practice in Canada.
- .02 If the actuary is unsure as to whether such a mandated assumption or method is within accepted actuarial practice in Canada, he or she would consult with the chair or vice-chair of the Committee on Actuarial Evidence of the Canadian Institute of Actuaries.
- .03 Where an assumption is mandated by law, regulation, court practice, or established legal principles relevant to the work, such assumption may be outside of the range of assumptions that the actuary considers to be reasonable. Subsection 1720 provides additional guidance for these situations.

**4400 CAPITALIZED VALUE OF AMOUNTS OTHER THAN PENSION PLAN
BENEFITS FOR A MARRIAGE BREAKDOWN**

4410 SCOPE

- .01 The standards in section 4400 apply to an actuary's advice when calculating the capitalized value of amounts other than pension plan benefits for a marriage breakdown. A capitalized value relates to amounts payable at various times, each amount subject to various contingencies related to the individual or to the individual's dependants. Examples of situations where capitalized values may be calculated are:

<u>Event</u>	<u>Capitalized Value of:</u>
Disability	individual's loss of earnings, loss of household services, and/or cost of extraordinary expenses attributable to the disability.
Death	dependant's loss of financial support and/or loss of household services.
Wrongful dismissal	individual's loss of earnings, pension benefits, and/or employer-sponsored benefits other than pensions.
Marriage breakdown	individual's support obligations.

4420 ASSUMPTIONS AND METHODS

Past loss

- .01 In some cases, the capitalized value is the present value of amounts payable both before and after the date at which the capitalized value is established. For example, in an accident caused by negligence, litigation of the damages may result in the capitalized value becoming payable several years after the accident. Then the damages consist of those in respect of both the period before and the period after the date at which the capitalized value is established, called "past losses" and "future losses", respectively.

Income tax

- .02 Subject to the terms of the engagement, the actuary may include an appropriate allowance in the capitalized value calculation for the expected effect of income tax, taking account of applicable law, regulation, court practice, and established legal principles relevant to the work. The actuary's report would deal with income tax in an internally consistent way, and the report would fully disclose the assumptions and methods utilized.

Investment expenses

- .03 Subject to the terms of the engagement, the actuary may include an appropriate allowance in the capitalized value calculation for any expenses expected with respect to the future investment, management, or administration of any settlement amount, taking account of applicable law, regulation, court practice, and established legal principles relevant to the work. The actuary's report would deal with such investment expenses in an internally consistent way, and the report would fully disclose the assumptions and methods utilized.

**4500 CAPITALIZED VALUE OF PENSION PLAN BENEFITS
FOR A MARRIAGE BREAKDOWN**

4510 SCOPE

- .01 The standards in this section 4500 apply to an actuary's advice when the capitalized value of a pension plan's benefits is needed for calculating the value of family property at the breakdown of the marriage of a plan member.
- .02 For the purposes of this section 4500, "plan" means "pension plan" and is broadly defined, including not only a plan that is registered under the federal Income Tax Act but also an unregistered plan, such as a retirement compensation arrangement and an unfunded pension plan.
- .03 The standards in this section 4500 do not apply when the purpose of the calculation is to calculate an amount, in respect of a pension benefit, to be paid:
- By the plan to the plan member or beneficiary as a result of the plan member's death or termination of membership; or
 - By a party other than the plan in connection with litigation other than in respect of a marriage breakdown.
- .04 The standards in this section 4500 may provide useful guidance for similar calculations for other deferred compensation arrangements, such as a partnership retirement buy-out agreement, a sick leave buy-out plan, and a retirement lump sum allowance, but they do not provide useful guidance for current compensation arrangements such as group life and disability insurance.
- .05 The standards in this section 4500 do not apply when applicable legislation mandates a different basis for the calculation of the value of a pension for family property purposes at the breakdown of the marriage of a plan member.

4520 METHOD

- .01 *The benefits to be valued are the plan's benefits in respect of the member (including survivor benefits vested in the member's spouse) at the calculation date or calculation dates.*
- .02 *The value of the member's benefits is the capitalized value of the benefits to be valued, but assuming that the member has no spouse. The value of the survivor benefits vested in the member's spouse is the excess, if any, of the capitalized value of the benefits to be valued over the value of the member's benefits. [Effective January 1, 2004]*

Principle

- .03 The capitalized value would conform to the intent of applicable family law. The capitalized value may, thus, differ from the corresponding transfer value from a registered pension plan. Transfer values typically include only unconditional rights, whereas property under family law typically includes both vested and contingent rights. Thus, such contingent rights as early retirement rights, bridging benefits, and ad hoc inflation adjustments are property to be considered in a calculation for marriage breakdown purposes.
- .04 The standards in this section will often produce more than one result, by taking account of alternative possibilities for:
- Pension commencement age;
 - Future increases in accrued benefits before and after retirement;
 - Allocation of value earned before marriage;
 - Inclusion or exclusion of non-vested benefits; or
 - Special circumstances, such as buy-back or transfer of benefits.
- .05 If the actuary has reason to believe that the plan's financial position is so weak that payment of the capitalized benefits is doubtful, then the actuary would so report, making clear that allowance for this factor could significantly reduce the present values calculated, given that such present values have been calculated assuming that the plan would meet its obligations. In making that assessment, the actuary would take into account any benefits payable under provincial pension guarantee legislation. The actuary would take into account further the extent to which plan benefits are provided through a retirement compensation arrangement and/or an unfunded pension plan.
- .06 The terms of the actuary's engagement may determine some or all of:
- The relevant law or jurisdiction;
 - The calculation date or calculation dates;
 - Retirement age, but only if established as a matter of fact pursuant to an agreement of the parties or a determination by the court; and
 - Inclusion or exclusion of the effect of income taxes.

Benefits to be valued

- .07 The benefits to be valued would include all of the plan's contractual benefits, including pre- and post-retirement death benefits, and any contractual inflation protection and non-contractual inflation protection.
- .08 The benefits to be valued would exclude spousal survivorship benefits, except to the extent that these may have vested upon retirement prior to the calculation date.

- .09 The form of plan benefits that would be valued would be the most favourable of any optional form available to the member with no spouse. For example, a 15-year guaranteed pension option would have a greater value than a five-year guaranteed pension option for a member with impaired mortality. However, if the applicable law disregards a particular optional form of plan benefit, then the actuary may omit that option in calculating the capitalized value.
- .10 The benefits may include or exclude any non-vested benefits. Non-vested benefits may be included in the values, or may be illustrated separately, and would be valued without discount for the possibility of future forfeiture. Separately from the illustrated values, the report may contain comments including suggestions for recognizing the contingent nature of non-vested benefits. The references in this paragraph to inclusion of values of non-vested benefits apply in jurisdictions where the inclusion of such values depends on the plan provisions applicable to a deferred vested member. In other jurisdictions, the inclusion of such values depends on the extent to which continued employment is assumed.
- .11 The capitalized values would include ancillary benefits that are provided by the plan as of the calculation date and are expected to become available to the member after the calculation date if the plan member continues as an active member of the plan, but are not available to the member as of the calculation date, such as unreduced early retirement benefits.
- .12 The actuary would disclose whether or not the benefits valued include benefits that will be provided by the plan after the calculation date and that are expected to become available to the member after the calculation date if the plan member continues as an active member of the plan, but are not available to the member as of the calculation date, for example:
- A future increase in benefits as a result of a collective bargaining agreement; or
 - A future increase in benefits as a result of an adopted plan amendment.
- .13 The benefits referred to in paragraph 4520.11 are those payable by the plan as a going concern, and not those payable on plan wind-up, if different, unless the plan has been fully wound up or partially wound up with respect to the plan member.
- .14 Where various legal interpretations for a specific question appear possible, the actuary would obtain clarification of such unclear matters from the instructing lawyer or from another authoritative source. If that is not possible, the actuary would advise that various interpretations exist, and would report the effects of these interpretations or report values that, in the actuary's opinion, are most consistent with accepted actuarial practice.

Calculation date

- .15 The calculation date may be single or multiple, depending on the circumstances and applicable law. The possibilities include:
- The date of separation;
 - The date of marriage or commencement of cohabitation;
 - The date of trial; and
 - The report date.
- .16 If the use of an alternative calculation date, close to the calculation date, would significantly affect the capitalized value, then the actuary would so report. Examples are:
- The date at which the member becomes eligible for early retirement with unreduced benefits; and
 - The date at which the plan is amended to enhance its benefits.

Applicable standards

- .17 The applicable standards are those in effect at the calculation date. If there are two or more calculation dates, however, and if the standards applicable to one differ from the standards applicable to another, then the actuary would use the same standards for all calculation dates. The choice of standards would be governed by the latest of the calculation dates, except that the choice would be governed by the base calculation when the actuary selects an alternative calculation date, close to the calculation date, in accordance with the previous paragraph.

Future service

- .18 If the member's employment terminated before the calculation date and was not reinstated at the report date, then the actuary would include nothing in the capitalized value on account of assumed service after the calculation date, even if reinstatement is possible after the report date. The actuary may, however, report a useful alternative calculation that assumes reinstatement.
- .19 If the member's employment terminated between the calculation date and the report date and was not reinstated at the report date, then the actuary may, with disclosure, exclude from the capitalized value any non-vested benefits forfeited by the termination of employment.

Effect on capitalized value of minimum benefits

- .20 In calculating the capitalized value, the actuary would take account of any minimum benefit related to member contributions, for example:
- The so-called "50% minimum employer contribution rule"; and
 - A minimum benefit equal to the member's contributions accumulated with interest.
- .21 The minimum benefit would not necessarily be limited only to the value determined on a termination of employment assumption. The capitalized value would incorporate the relevant minimum benefit rule according to the event.

Effect on capitalized value of salary increases after the calculation date

- .22 If the pension is an earnings-related benefit, then the possibilities are:
- The capitalized value takes account of all the member's salary increases—general increases, promotional increases, and seniority increases—after the calculation date;
 - The capitalized value takes account of the member's salary increases that result from general (as opposed to promotional and seniority) salary increases after the calculation date. A rationale for this possibility is that the member's spouse has no entitlement to the effect of promotions or seniority increases that the member earns after the calculation date;
 - The capitalized value does not take account of the member's salary increases after the calculation date. A rationale for this possibility is that the member's spouse has no entitlement to the effect of salary increases, which depend on the member's continued employment after the calculation date.
- .23 The assumed salary increases after the calculation date would be consistent with the prescribed economic assumptions, except that salary increases revealed by subsequent events would be substituted for the corresponding assumed increases.

Effect on capitalized value of non-contractual indexing of pensions and other benefit adjustments

- .24 In calculating the capitalized value, the actuary would assume continuance of the plan's established practice or current policy, if any, for non-contractual indexing for inflation of pensions after pension commencement age and of vested deferred pensions before pension commencement age, unless there is explicit reason not so to assume. The actuary would report:
- The established practice or current policy; and
 - The indexation assumption.
- .25 If that assumption is doubtful, then the actuary would also report the numerical effect on the capitalized value of helpful alternative assumptions.
- .26 In the case of a final or best average earnings plan, there would be no allowance made for indexing of vested deferred pensions before pension commencement age in the period for which salary increases are projected after the calculation date.

Effect on capitalized value of income tax

- .27 Income tax may be taken into account in the calculation. If it is to be taken into account, then the actuary would do so by calculating the average income tax rate based upon the member's anticipated retirement income computed in "current" dollars, including accrued and projected future pension income, Canada Pension Plan, Old Age Security, and other anticipated income, and continuance of the tax environment at the report date or the calculation date; i.e., assuming continuation of the existing tax rates, brackets, surtaxes, and clawbacks, applied to the projected income on retirement expressed in "current" dollars. The actuary would disclose which date was used and if the tax environment is as at the report date, would disclose the use of any tax provisions that have not yet been enacted.
- .28 The actuary may report useful alternative calculations that take income tax into account.

4530 ASSUMPTIONS

- .01 *The actuary should select all assumptions, except those depending upon interpretation of applicable law. [Effective January 1, 2004]*

Mortality rates

- .02 *The actuary should assume mortality 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. [Effective January 1, 2012]*
- .03 Tobacco use (or lack of tobacco use) would not, in itself, be sufficient reason to modify the mortality rates identified above.
- .04 Use of unisex mortality rates would not be appropriate except that it may be appropriate in situations where the plan member has terminated employment and has elected, or has the option to elect, a transfer value that was or would be calculated under a unisex basis.

Retirement age

- .05 If the retirement age is a matter of fact (i.e., one agreed by the parties or determined by the court), then the actuary would report the selection of the assumed retirement age as such.
- .06 The retirement of the member before the report date does not necessarily preclude assumption of a different retirement age.
- .07 Unless paragraph 4530.05 applies, the actuary would usually assume and report the results for a range of useful retirement ages, based on data at the calculation date, which would include:
- The earliest age at which the member is entitled to a pension whose amount is not reduced on account of early retirement, assuming that the member's service ceases at the calculation date;
 - The earliest age at which the member is entitled to a pension whose amount is not reduced on account of early retirement, assuming that the member continues in service either to that age or to an earlier age after the calculation date;

- If there is an upper limit to the number of years of credited service, the earliest age at which the member has attained, or will attain, that upper limit and becomes entitled to a pension whose amount is not reduced on account of early retirement; and
- The normal retirement age.

Economic assumptions

- .08 The actuary should select economic assumptions that depend on the reported rates for the applicable CANSIM series for the calendar month immediately preceding the month in which the calculation date falls.
- .09 The actuary should determine from the CANSIM series the following four factors:

<i>CANSIM Series</i>	<i>Description</i>	<i>Factor</i>
VI22487	average long (>10 yrs) Government of Canada bond yields (final Wednesday of month)	G_L
VI22544	long-term Government of Canada benchmark bond yield, annualized (final Wednesday of month)	b_L
VI22553	long-term Government of Canada real return bond yield, annualized (final Wednesday of month)	r_L
$(1 + b_L)/(1 + r_L) - 1$	break-even inflation rate	BEIR

Note that the factors determined above do not reflect the reported CANSIM series, but the annualized value of the reported figure.

Inflation and indexing

- .10 The actuary should calculate the projected benefit obligation for a pension that is fully indexed to increases in the Consumer Price Index using an assumed inflation rate of EI. For pensions that are partially indexed to increases in the Consumer Price Index, the actuary should derive inflation rates in a like manner by applying to the stipulated inflation rates the partial indexing formula of the plan.
- .11 The actuary should determine the assumed rate of inflation EI as:
- First 20 years $EI_{0-20} = BEIR$
 - After 20 years $EI_{20+} = 2.25\%$
- EI should be rounded to the nearest multiple of 0.01%.
- .12 Where increases in pensions are related to increases in the average wage index, the actuary should assume that the average wage index will increase at rates that are one percentage point higher than EI.

.13 *The capitalized value of a fully- or partially-indexed pension should be at least equal to the capitalized value applicable to a non-indexed pension in the same amount and having similar characteristics. [Effective January 1, 2012]*

.14 Where the plan so provides, the indexing in any of the above arrangements may be modified by:

- Applying a maximum or minimum annual increase, with or without carry forward of excesses or deficiencies to later years; or
- Prohibiting a decrease in a year where the application of the formula would otherwise cause a decrease.

The actuary would then adjust the expected inflation rate for a year to reflect the probability and extent of modification for that year.

.15 If the pension is indexed using an “excess investment return” approach, the expected indexation rate would be determined using the “floor rate” and the interest rates determined in accordance with paragraph 4530.18 to produce an expected indexation rate consistent with excess interest situations.

.16 For a pension in a plan that has a policy or a history of indexing on an ad hoc basis, the actuary would determine an indexation rate consistent with the indexing policy or history.

Interest rates

.17 *The actuary should calculate two interest rates, one applicable to the first 20 years following the calculation date, and the second one applicable to all years thereafter.*

.18 *The actuary should determine the interest rates as:*

- *First 20 years* $i_{0-20} = G_L + 0.50\%$
- *After 20 years* $i_{20+} = 5.50\%$

Prior to calculating the capitalized value, the actuary should round the rates of interest determined in accordance with this paragraph to the nearest multiple of 0.1%.

.19 *The actuary should calculate the capitalized value of a pension using a two-tier interest rate of:*

- *i_{0-20} for the first 20 years; and*
- *i_{20+} thereafter. [Effective January 1, 2012]*

Assumptions selected by client

.20 The actuary would obtain instructions from the client with respect to assumptions dependent upon the interpretation of applicable law.

.21 The actuary would report his or her reliance on an assumption selected by the client.

4540 REPORTING: EXTERNAL USER REPORT

.01 Here is model text if the actuary reports without reservation with regard to marriage breakdown:

I have determined the capitalized value of the pension benefits and prepared this report in accordance with accepted actuarial practice in Canada, for purposes of settlement of a division of pension benefits resulting from marriage breakdown under the [Family Law Act] of [province]. In my opinion, the capitalized values are appropriate for this purpose.

Respectfully submitted,

[actuary]

Fellow, Canadian Institute of Actuaries

4600 CALCULATION OF CRIMINAL RATE OF INTEREST

4610 SCOPE

- .01 The standards in section 4600 apply to an actuary's advice when determining whether the interest rate for a particular agreement or arrangement is a "criminal rate".
- .02 The Criminal Code of Canada defines "criminal rate" as meaning an effective annual rate of interest calculated in accordance with generally accepted actuarial practices and principles that exceeds 60 percent on the credit advanced under an agreement or arrangement.

4620 DATA

- .01 *The actuary should ascertain or make assumptions regarding the quantum and timing of all amounts actually or deemed to be advanced as well as all amounts actually or deemed to be repaid either as principal or as "interest" as defined in the Criminal Code.*
- .02 *The actuary should report all data used in the calculation, and their sources. [Effective December 31, 2013]*
- .03 If data are not clear from the initial terms of the engagement, the actuary would obtain clarification from his or her client (for example, whether or not a particular item falls within the statutory definition of "interest," or the timing of a particular payment that could be made on various alternate dates).

4630 METHOD

- .01 *The actuary should calculate and report the effective rate of interest compounded annually, "i", such that the following equality is established:*

$$\sum_{r=1}^m A_r \times (1+i)^{t_r} = \sum_{s=1}^n B_s \times (1+i)^{t_s}$$

where

- *m is the total number of payments advanced by the lender to the borrower;*
- *n is the total number of payments repaid by the borrower to the lender;*
- *A_r is the amount of the rth payment advanced by the lender;*
- *B_s is the amount of the sth payment repaid by the borrower, consisting of principal, "interest" as defined, or a combination of both;*

- t_r is the period measured in years (including fractional parts of a year) between the time that the r^{th} payment is advanced by the lender to the borrower and the time on which the final repayment is made by the borrower to the lender; and
- t_s is the period measured in years (including fractional parts of a year) between the time that the s^{th} payment is repaid by the borrower to the lender and the time on which the final payment is made by the borrower to the lender. [Effective December 31, 2013]

- .02 If the calculation produces only one result, then the actuary would report that result. If the calculation produces more than one result, then the actuary would report only those that are positive and real, or zero.
- .03 The formula in paragraph 4630.01 applies in most, but not all, situations.

4700 REPORTING

4710 EXTERNAL USER REPORT

- .01 *For work pursuant to part 4000, any external user report that is prepared should:*
- *Identify the person for whom the report was prepared and, if that person is acting on behalf of a party to the dispute, that party to the dispute;*
 - *State the effective date of the report and the effective date of any actuarial opinions and calculations in the report;*
 - *Describe any terms of the appropriate engagement that are material to the actuary's work, including the role of the actuary, the scope and purpose of the work, any limitations or constraints on the work and any stipulated assumptions or methods;*
 - *Where the actuary is aware of circumstances where the independence of his or her expert opinion may reasonably be questioned, disclose such circumstances;*
 - *Disclose the results of the work;*
 - *Describe the data, methods, and assumptions used for the work, including the terms and the amounts of the payments relevant to any calculations, for each of the scenarios presented in the report;*
 - *Identify the assumptions and methods that are constrained by law, regulation, court practice, or established legal principles relevant to the work;*
 - *Identify the differences between scenarios where the results of multiple scenarios are presented;*
 - *Identify any margins for adverse deviations that are included, except where the assumption or method is mandated by law, regulation, court practice, or established legal principles relevant to the work, and the rationale for inclusion of any identified margins for adverse deviations;*
 - *Describe every contingency that has been taken into account, and state that there may be other contingencies that could have a positive or negative effect that have not been taken into account;*
 - *Disclose the extent of the actuary's reliance on others;*
 - *List the sources of information on which the actuary has relied; and*
 - *Include any other information required in accordance with the rules of civil procedure, the rules of law, or other rules that may be applicable for the relevant jurisdiction. [Effective December 31, 2013]*
- .01.1 *Notwithstanding paragraph 1820.01, the actuary is not required to provide an opinion on assumptions which are stipulated by the terms of engagement provided such assumptions are plausible in accordance with paragraph 4320.03.*

.01.2 *Notwithstanding paragraph 1820.01, the actuary is not required to provide an opinion on assumptions or methods described in paragraph 4340.01 which are within the range of accepted actuarial practice pursuant to paragraph 4340.01. [Effective March 31, 2015]*

.02 *The actuary's external user report should be sufficiently detailed to enable another actuary to assess the reasonableness of the results. [Effective December 31, 2013]*

.03 The actuary would prepare any draft reports and other documentation, taking into account the potential disclosure of such documents that may be required as part of the dispute resolution proceedings.

.04 Where the actuary reports the results of a capitalized value calculation without reservation, the disclosure wording that may be used is:

I have determined the capitalized value of those aspects of the pecuniary damages described herein and prepared this report in accordance with accepted actuarial practice in Canada. It is my opinion that the assumptions and methods for which I have taken responsibility are appropriate in the circumstances of this case and for the purpose of this report.

Respectfully submitted,

[actuary]

Fellow, Canadian Institute of Actuaries

Reporting with reservation

.05 Reporting with reservation or stating that the reporting requirements have not been followed would not excuse an actuary from these reporting standards.

.06 Notwithstanding paragraph 4340.01, the circumstances of the work may result in deviation from accepted actuarial practice in Canada. For example, the terms of the engagement may require that the actuary use an assumption that is outside of the range that the actuary considers plausible, or that the actuary use a method that the actuary considers is not appropriate, or that the actuary assist counsel with challenging a specific interpretation of the law. In such case, the actuary would disclose such deviation in the report.

New information

.07 Notwithstanding paragraph 1515.01, where an event occurs, such as the availability of new information, after the actuary has completed his or her report, the actuary would consider the potential effect of such event on his or her work, and would advise his or her client on a timely basis, if appropriate and subject to the terms of the engagement.

Disclosure of other expert's report

.08 The external user report need not disclose any error or shortcoming that the actuary identifies in the report of another actuary or other expert witness.

4720 INTERNAL USER REPORT

- .01 *Unless an internal user report conforms to the recommendations for an external user report, an internal user report should state that it is not to be given to an external user. [Effective December 31, 2013]*
- .02 For the purpose of determining whether or not the work is in accordance with accepted actuarial practice, an internal user report continues to be an internal user report even if, in breach of the statement required by paragraph 4720.01, it is given to an external user or utilized in the dispute resolution proceeding.