



**Canadian
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EDUCATIONAL NOTE SUPPLEMENT

Guidance for Assumptions for Hypothetical Wind-Up and Solvency Valuations Update – Effective December 31, 2023, and Applicable to Valuations with Effective Dates on or after December 31, 2023, and no later than June 29, 2024

January 22, 2024

Guidance for Assumptions for Hypothetical Wind-Up and Solvency Valuations Update – Effective December 31, 2023, and Applicable to Valuations with Effective Dates on or after December 31, 2023, and no later than June 29, 2024

Committee on Pension Plan Financial Reporting

Document 224009

Ce document est disponible en français.

The actuary should be familiar with relevant other guidance. They expand or update the guidance provided in an educational note. They do not constitute standards of practice and are, therefore, not binding. They are, however, intended to illustrate the application of the *Standards of Practice*, so there should be no conflict between them. The actuary should note however that a practice that the other guidance describes for a situation is not necessarily the only accepted practice for that situation and is not necessarily accepted actuarial practice for a different situation. Responsibility for the manner of application of standards of practice in specific circumstances remains that of the members. As standards of practice evolve, other guidance may not reference the most current version of the *Standards of Practice*; and as such, the actuary should cross-reference with current standards.

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Preamble

The most recent guidance from the Committee on Pension Plan Financial Reporting (PPFRC) regarding assumptions for hypothetical wind-up and solvency valuations was provided in the [educational note supplement](#) dated October 24, 2023. This guidance applied for valuations with effective dates on and after September 30, 2023 (but not later than June 29, 2024).

The PPFRC has conducted its quarter-end review of group annuity pricing conditions as at December 31, 2023, and recommended to the Actuarial Guidance Council (AGC) assumptions for hypothetical wind-up and solvency valuations for valuations with effective dates on or after December 31, 2023 (but no later than June 29, 2024).

In order to provide timely information to actuaries, the AGC has approved the guidance summarized in this educational note supplement. In accordance with the Institute's *Policy on Due Process for the Approval of Guidance Material Other than Standards of Practice and Research Documents*, this educational note supplement has been prepared by the PPFRC and has received final approval for distribution by the AGC on January 20, 2024.

Your feedback

Questions or comments regarding this educational note supplement may be directed to the [chair of the PPFRC](#).

1. Guidance as at December 31, 2023

The PPFRC has determined that an appropriate discount rate for estimating the cost of purchasing a non-indexed annuity or a fully consumer price index (CPI)-indexed annuity (prior to any adjustment for sub- or super-standard mortality) would be consistent with the [educational note](#) issued on March 23, 2023, with the exception of revisions to applicable durations and/or spreads as outlined in the following table.

| Educational note/ supplement | Mortality table ¹ | Non-indexed immediate and deferred pensions <i>Duration:² Spread relative to unadjusted CANSIM V39062</i> | | | Fully CPI-indexed pensions <i>Spread relative to unadjusted CANSIM V39057</i> |
|---------------------------------|------------------------------|---|-----------------|-----------------|--|
| | | Low duration | Medium duration | High duration | All durations |
| Dec 31, 2023 | CPM2014Proj | 7.8: + 160 bps | 10.0: + 150 bps | 12.0: + 150 bps | 0 bps |
| Sep 30, 2023 | CPM2014Proj | 7.4: + 180 bps | 9.3: + 170 bps | 11.1: + 160 bps | - 20 bps |
| Jun 30, 2023 | CPM2014Proj | 7.7: + 180 bps | 9.8: + 170 bps | 11.7: + 160 bps | - 20 bps |
| Mar 31, 2023 | CPM2014Proj | 7.8: + 160 bps | 9.9: + 160 bps | 12.0: + 160 bps | - 20 bps |
| Dec 31, 2022 | CPM2014Proj | 7.7: + 160 bps | 9.7: + 160 bps | 11.7: + 160 bps | - 20 bps |

Very low duration annuities

The PPFRC has been monitoring hypothetical quotes for groups with durations lower than the low duration indicated in the table above. As at December 31, 2023, the PPFRC continues to believe that a reasonable approach to derive the spread for very low duration annuities is to extrapolate from the spreads at the low and medium durations. Other approaches may also be reasonable.

Very high duration annuities

The PPFRC has been monitoring hypothetical quotes for groups with durations higher than the high duration listed in the table above and believes that these spreads are likely to be less than the spreads indicated at the high duration block. As at December 31, 2023, the PPFRC continues to believe that a reasonable approach to derive the spread for very high duration annuities is to decrease the spread by approximately 0.1% (10 bps) for each one-year increase in duration above the duration of the high duration block (12.0 as at December 31, 2023). Other approaches may also be reasonable.

There are no other changes to the guidance.

2. Retroactive application

If an actuary has already prepared a report (e.g., funding valuation report, solvency or transfer ratio report) with an effective date on or after December 31, 2023, before the publication of this guidance, the actuary would consider paragraphs 1710.36 through 1710.43 of the *Standards of Practice* to determine whether it is necessary to withdraw or amend the report.

¹ "CPM2014Proj" refers to the 2014 Canadian Pensioners' Mortality Table (CPM2014), combined with mortality improvement scale CPM Improvement Scale B (CPM-B) with no adjustments for sub- or super-standard mortality.

² Duration is to be determined for the portion of the liabilities assumed to be settled through the purchase of annuities, based on the medium duration discount rate at the most recent quarter-end.

Additional details on this guidance will be published in the form of an explanatory report, in accordance with the *Policy on Due Process for the Approval of Guidance Material other than Standards of Practice and Research Documents*.



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