Canadian Institute of Actuaries
Institut canadien des actuaires

EDUCATIONAL NOTE

Guidance on Events Occurring After the Calculation Date of an Actuarial Opinion for a Pension Plan

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Guidance on Events Occurring After the Calculation Date of an Actuarial Opinion for a Pension Plan

Committee on Pension Plan Financial Reporting

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Ce document est disponible en français.

The actuary should be familiar with relevant educational notes. Educational notes are not binding; rather they are intended to illustrate the application of the *Standards of Practice*. A practice that an educational note describes for a situation is not necessarily the only accepted practice for that situation nor is it necessarily accepted practice for a different situation. Responsibility for ensuring that work is in accordance with accepted actuarial practice lies with the actuary. As accepted actuarial practice evolves, an educational note may no longer appropriately illustrate the application of standards.

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Preamble

This updated educational note is intended to assist pension actuaries in valuing and reporting on events that occur after the calculation date, when the actuary has determined that the event makes the entity different.

An educational note on this subject was originally published in January 2007 and updated in January 2015 to conform to the pension-specific standards of practice effective February 1, 2014. This educational note has been updated in 2024 primarily to update references to the *Standards of Practice* effective December 1, 2022, and to provide consideration to subsequent events when reporting a pension plan's costs and obligations in financial statements.

Process

The creation of this cover letter and educational note has followed the Actuarial Guidance Council's (AGC's) protocol for the adoption of educational notes. In accordance with the CIA's *Policy on Due Process for the Approval of Guidance Material Other Than Standards of Practice and Research Documents*, this educational note has been prepared by the Committee on Pension Plan Financial Reporting (PPFRC) and has received approval for distribution by the AGC on May 14, 2024.

Your feedback

Questions or comments regarding this educational note may be directed to the chair of the PPFRC.

1. Introduction

The purpose of this educational note is to assist pension actuaries in valuing and reporting on events that occur after the calculation date, when the actuary has determined that the event makes the entity different.

This educational note does not provide assistance on how to determine whether an event makes an entity different and, therefore, whether the actuary would reflect the event in their calculations or report. Rather, the purpose of this educational note is to provide pension actuaries with guidance on how to quantify and report on an event when the actuary has already determined that the event does make the entity different. The actuary would refer to subsections 1420 and 1430 of the *Standards of Practice* (SOP) for details on how to determine whether an event makes an entity different.

While the most common such event is a plan amendment that improves the benefits under a pension plan, this educational note is also intended to apply to other events such as a reduction in benefits and a significant decrease in the plan membership.

This educational note was prepared in contemplation of a regular funding valuation, including the going concern valuation, hypothetical wind-up valuation and solvency valuation. Certain aspects of this educational note may not be applicable in certain special circumstances, such as actual wind-up valuations, accounting valuations or valuations for other purposes.

Finally, some legislators have regulations or have issued policies describing the expected methods of reporting on plan amendments. The actuary should take into consideration any such policies and regulations as well as the information contained in this educational note.

2. Definitions

This educational note makes use of terms defined in subsection 1120 of the SOP. For convenience, these terms are reproduced here:

- Calculation date is the effective date of a calculation, e.g., the calculation date in the case of a valuation for financial statements. It usually differs from the report date.
- External user is a user other than the actuary's client or employer. Internal user and external user are mutually exclusive.
- To fund a plan is to dedicate assets to its future benefits and expenses. Similarly for "funded" and "funding".
- Funded status is the difference between the value of assets and the actuarial present value of benefits allocated to periods up to the calculation date by the actuarial cost method, based on a valuation of a pension plan, non-pension employee future benefit plan, or social security program.
- Internal user is the actuary's client or employer. Internal user and external user are mutually exclusive.
- Report date is the date the actuary specifies as such in the report. It usually differs from the calculation date.
- Subsequent event is an event of which an actuary first becomes aware after a calculation date but before the corresponding report date.

This educational note separately considers:

- events that are definitive or virtually definitive *before* the report date (a *subsequent event*); and
- events that are definitive or virtually definitive *after* the report date.

The reporting of the financial implications of events that become definitive or virtually definitive after the calculation date has commonly been referred to as an "interim actuarial opinion." It is noted that this term does not exist in the SOP. When an actuary provides an opinion about the funding or funded status of a plan as at a certain calculation date, they would comply with all aspects of the SOP. This includes, among other things, ensuring that the membership data are sufficient and reliable, the assumptions are appropriate, and the methods are appropriate at that calculation date. Therefore, an opinion that is based on assets determined at a certain calculation date but liabilities calculated using assumptions that are not appropriate as at this calculation date would not be in accordance with the *Standards of Practice*.

3. Events that are definitive or virtually definitive before the report date (i.e., a subsequent event)

Under subsection 1430 of the SOP, if an event is definitive, or virtually definitive, before the report date, it is a subsequent event and it should either:

- be taken into account in the calculations; or
- be disclosed in the report but not taken into account in the calculations.

If the actuary chooses to disclose the event but not take it into account in the calculations, paragraph 1710.24 of the SOP requires the actuary to report that the event will be taken into account in a future report and, if useful, the actuary would quantify its effect.

If the event is to be taken into account in the actuary's calculations, it could be done in one of the following three methods:

a) One actuarial opinion

The actuary could provide an opinion on the funding or funded status of the plan (both on going concern and hypothetical wind-up bases) as at the calculation date by valuing all benefits, including those benefits arising out of the event, using appropriate membership data, methods and assumptions as at the calculation date. Subject to regulatory and legislative considerations, the change in normal cost and special going concern and solvency payments associated with the event could either:

- commence at the calculation date, even if the effective date of the event falls at a later date; or
- commence at the effective date of the event.

Note, however, that under the second option, the assumptions used to determine the updated normal cost and special going concern and solvency payments would be appropriate as at the calculation date, not the effective date of the event.

b) Two separate actuarial opinions – reflecting the funding or funded status at two dates

In lieu of one opinion at one calculation date, the actuary could prepare a report that provides distinct funding or funded status at two separate calculation dates. The membership data, methods and assumptions used to determine the funding or funded status would be appropriate at each respective calculation date (i.e., the valuation of assets and liabilities for each funding or funded status would be consistent and would be appropriate at the respective calculation dates). The first opinion would not include provision for the subsequent event. The second opinion would include provision for the subsequent event.

c) Two separate actuarial opinions – one reflecting the funding or funded status at the first calculation date and one reflecting the financial impact of the subsequent event

Under this approach, the actuary would prepare an opinion on the funding or funded status of the plan at the calculation date, excluding provision for the subsequent event. A second opinion would then be prepared at the effective date of the subsequent event that reflects the financial impact of the subsequent event. For example, the second opinion may state that the subsequent event increases the going concern actuarial liability by $x, and the hypothetical wind-up liability by $y and provide information on the contributions required to fund these additional liabilities. Under this approach, the membership data, methods and assumptions used to determine the financial impact of the subsequent event would be appropriate as at the effective date of the subsequent event (i.e., the second calculation date) and may be different from the membership data, methods and assumptions applicable at the first calculation date.

Under paragraph 3260.20 of the SOP, the second opinion would not be required to state the funded status of the plan on a going-concern or solvency basis at the effective date of the subsequent event, unless required by law or by the terms of an appropriate engagement. However, under this same paragraph, a hypothetical wind-up valuation must be conducted and the corresponding funded status disclosed at the second calculation date, incorporating revalued benefits and assets, in accordance with paragraph 3260.04.

This method does not consider the re-measurement of the funded status of the plan at the effective date of the subsequent event in determining the funding requirements of the subsequent event. It may not be appropriate to opine that the additional funding requirements that arise at the second calculation date would be sufficient to adequately fund the plan if, for example, the funding or funded status of the plan has deteriorated due to plan experience.

Selection of appropriate method

The choice of which method to use to reflect the financial implications of the event will depend on various factors, including:

- the type of event;
- the relative significance of the financial impact of the event;
- the funded status of the plan on both a hypothetical wind-up basis and a going concern basis;
- legislative requirements;
- the plan sponsor's funding policy; and
- the length of time between the calculation date and the effective date of the event.

Observations include the following:

- Method a) would typically be preferred if the date of the event was shortly after the calculation date, particularly if the event is known prior to the report date.
- Method b) would typically be preferred if there was a long period of time between the original calculation date and the date of the event. This method may further be preferred if there have been material changes to the membership data since the original calculation date, or if it is necessary to opine about the funding or funded status of the entire plan at the event date to determine the funding requirements.
- Method c) would typically be acceptable if the terms of an appropriate engagement and applicable legislation and regulations did not require the funded status of the entire plan following the event to determine additional funding requirements for the event. It may not be appropriate in other situations. For example, consider a plan that was in a going concern surplus position at the original calculation date and an amendment improves benefits at a subsequent date. The use of method c) would not normally enable the actuary to opine on whether the going-concern surplus at the original calculation date was sufficient to fund the plan improvements. A related situation may arise when legislation or regulations prohibit plan improvements unless a plan meets certain funding thresholds. Generally, the actuary would not be able to opine on whether the entire plan met such funding thresholds unless the actuary valued the entire plan, and not only the plan improvements.

4. Events that are definitive or virtually definitive after the report date

After a report date, the actuary does not have to seek additional information as to whether an event affecting the funding or funded status of the plan has occurred. However, if an actuary becomes aware of an event that becomes definitive or virtually definitive after the report date, then the actuary may need to withdraw or amend the report. The actuary would be guided by paragraphs 1710.40 through 1710.43 of the SOP to determine whether a post-report event requires the withdrawal or amendment of a report. In particular, paragraph 1710.41 suggests that if the additional information would have been reflected in the report if it were revealed prior to the report date, then the report may need to be withdrawn or amended.

If the event does not require the withdrawal or amendment of the report, then the actuary is under no obligation to report on the financial implications of the event. However, the actuary may be directed by an internal user or an external user to prepare a report that does reflect the financial implications of the event. In this situation, the actuary may apply the methods described in b) or c) above.

Under b), the actuary's report would include information on the entire funding or funded status of the plan, at a revised calculation date. Accordingly, under this option, the actuary is really preparing a completely new opinion and new report at a revised calculation date. The new report would be subject to the normal requirements with respect to opining upon the suitability of the membership data, methods and assumptions as at the revised calculation date.

Under c), the actuary's report would only include information on the financial implications of the event itself and a hypothetical wind-up valuation of the entire plan. These financial implications would be determined at a revised calculation date and the actuary would be required to opine upon the suitability of the membership data, methods and assumptions at the revised calculation date.

5. Considerations for reporting of a pension plan's costs and obligations in the employer's or the pension plan's financial statements

Accounting standards are relevant when considering the appropriate treatment of subsequent events in financial reporting for pension plans. For example, at the current time, for organizations reporting under international accounting standards, key standards that deal with the treatment of subsequent events are IAS 10 "Events After the Reporting Period" in Part 1 IFRS of the *CPA Canada Handbook – Accounting* in addition to subsection 1430 of the SOP.

6. Final comment

The above guidance requires that the membership data, methods and assumptions be appropriate based on the calculation date. Note that this does not mean that membership data would be collected as of each calculation date. Rather, it would be permissible to project membership data from a previous date to a calculation date, provided that the actuary is comfortable that the resulting membership data are sufficient and reliable for the purposes of the valuation.

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