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Educational Note Supplement

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

Committee on Pension Plan Financial Reporting

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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. To assist the actuary, the CIA website contains a reference of pending changes to educational notes.



Memorandum

To: Members in the pension area

From: Dean Newell, Chair
Actuarial Guidance Council

Gus Van Helden, Chair
Committee on Pension Plan Financial Reporting

Date: May 1, 2023

Subject: **Educational Note Supplement: Guidance for Assumptions for Hypothetical Wind-Up and Solvency Valuations Update – Effective March 31, 2023, and Applicable to Valuations with Effective Dates on or after March 31, 2023, and no later than June 29, 2024**

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](#) dated March 23, 2023. This guidance applied for valuations with effective dates on and after December 31, 2022 (but not later than June 29, 2024).

The PPFRC has conducted its quarter-end review of group annuity pricing conditions as of March 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 March 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 memorandum. 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 May 1, 2023.

Guidance as of March 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. There are no other changes to the guidance.

Educational note/ supplement	Mortality table ¹	Non-indexed immediate and deferred pensions <i>Duration²: 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
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
Sep 30, 2022	CPM2014Proj	7.8: + 140 bps	9.9: + 150 bps	11.9: + 150 bps	-40 bps
Jun 30, 2022	CPM2014Proj	7.8: + 130 bps	9.9: + 150 bps	11.9: + 150 bps	-60 bps
Mar 31, 2022	CPM2014Proj	8.2: + 120 bps	10.5: + 140 bps	12.8: + 140 bps	-40 bps

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 March 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.

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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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.