

Final Standards

Final Standards – Amendments to Section 3500 of the Practice-Specific Standards for Pension Plans – Pension Commuted Values (red-lined)

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3500 Pension Commuted Values

3510 Scope

.01 The standards in this section 3500 apply to ~~an actuary's~~ advice on the computation of commuted values, including commuted values to be paid from a pension plan that is registered under an Act when the method of settlement is a lump sum payment in lieu of an immediate or deferred pension resulting from death or individual termination of plan membership, ~~except for the specific circumstances that are described below in paragraph 3510.03.~~ In particular, the standards in this section 3500 apply:

- In a jurisdiction whether or not there is legislation in that jurisdiction that specifically provides for portability of pension benefit credits;~~;~~
- Regardless of limits imposed by the Income Tax Act (Canada) on amounts that may be transferred to other tax-sheltered retirement plans; ~~and~~
- Subject to paragraph 3570.05, regardless of the specific adjustments to commuted values in order to determine the lump sums paid from a pension plan required by the terms of the plan in accordance with applicable legislation. An example of such an adjustment would be the requirement by pension legislation to reduce the lump sum payment to a former pension plan member if the plan is less than fully funded.
- As modified by subsection 3570, to the determination of commuted values of pensions and deferred pensions payable from target pension arrangements, such as certain target benefit plans and multi-employer pension plans. For purposes of this section 3500, a target pension arrangement is a pension plan for which applicable legislation contemplates the reduction to the accrued pensions of plan members and beneficiaries while the pension plan is ongoing as one of the available options for maintaining the funded status of the pension plan, and where the reduction in accrued pensions is not necessarily caused by the financial distress of the plan sponsor or sponsors.
- Under a reciprocal pension agreement between plan sponsors where the result of the reciprocal agreement is either to establish a pension amount determined on a defined contribution basis or to establish an account balance under a defined contribution provision of a plan, whether the account balance is to be converted immediately or subsequently into a pension.

.02 The standards in this section 3500 also apply to the determination of a lump sum payment from the pension plan in lieu of an immediate or deferred pension to which a plan member's former spouse is entitled after a division of the member's pension on marital breakdown.

.03 The standards in this section 3500 do not apply:

- Under a reciprocal pension agreement between plan sponsors where the result of the reciprocal agreement is to provide defined pension benefits or target pension benefits for the plan member;
- To the determination of commuted values of pensions and deferred pensions payable from pension arrangements that are not registered under an Act;
- To the conversion of defined pension benefits or target pension benefits to a defined contribution arrangement where there is no termination of active employment;
- To the determination of commuted values of pensions that have commenced payment and where commutation is at the discretion of the member, except as explicitly required under paragraphs 3510.02 or 3560.01; ~~or~~
- When calculating the capitalized value of pension benefits for actuarial evidence purposes, pursuant to part 4000, where such value does not relate to a commuted value payable from a registered pension plan; or
- To the determination of commuted values of pensions and deferred pensions under a target pension arrangement in the case of a full or partial wind-up.

Act

.04 For the purposes of this section 3500, "Act" means a pension benefits standards act of a province or the federal government of Canada or the Income Tax Act (Canada).

Retirement ~~C~~ompensation ~~A~~rrangements

.05 Since ~~R~~etirement ~~C~~ompensation ~~A~~rrangements (RCAs) are not required to be registered under the Income Tax Act (Canada), this section 3500 applies to commuted values payable from an RCA only if the RCA is registered under a pension benefits standards act of a province or the federal government of Canada.

3520 Method

.00 A commuted value calculated in accordance with the methods and assumptions of this section 3500 is intended to represent the economic value of the immediate or deferred pension that would have been paid from the pension plan. That is, it is intended to represent the value that the marketplace would attribute to that pension, while reflecting certain simplifications in the calculations and requiring in some cases that certain assumptions be common among different plans. It is not intended to include any value that marketplace participants such as insurance companies might attribute to potential costs different than expected due to the assumption of risks such as longevity and inflation.

.01 The commuted value should be independent of the funded status of the pension plan-, except in the circumstances described in paragraph 3540.16.1 and paragraph 3570.05 ~~at the valuation date.~~ [Effective ~~April 1, 2009~~December 1, 2020]

.02 The ~~actuary should establish the~~ period for which the commuted value applies before recomputation is required may be established by the plan terms or, taking into account the requirements of applicable legislation, or by a plan administrator who is empowered to specify such period ~~and the plan rules.~~ Commuted values paid after the end of such period should be recomputed on the basis of a new valuation date. If the period for which the commuted value applies before recomputation is required is not established by the terms of the plan or applicable legislation, or by a plan administrator who is empowered to specify such period, the period should be established as nine months after the valuation date. [Effective ~~April 1, 2009~~December 1, 2020]

.03 The commuted value should be adjusted for ~~a reasonable rate of~~ interest, taking into account the requirements of applicable legislation, between the valuation date and the first day of the month in which the payment is made. Unless otherwise required by applicable legislation, the interest rates used to calculate the commuted value should be used for such adjustment. [Effective ~~April 1, 2009~~December 1, 2020]

.04 Subject to paragraph 3570.05, ~~the~~ commuted value should reflect the plan member's full benefit entitlement as a deferred or immediate pensioner, as may be applicable, determined under the terms of the pension plan. In the case of a deferred pensioner, the commuted value should include the value of the death benefit that would have applied before commencement of the deferred pension. [Effective ~~April 1, 2009~~December 1, 2020]

.05 ~~The actuary~~ A commuted value should not be calculated ~~a commuted value~~ using methods or assumptions that produce a commuted value smaller than the value computed in accordance with this section ~~3500.~~ [Effective ~~April 1, 2009~~December 1, 2020]

Valuation date

- .06 The valuation date means the date as of which a value is being computed. Generally, this would be the date upon which the plan member becomes entitled to an immediate or deferred pension resulting from death or individual termination of plan membership, or as of such other date as may be determined either by applicable legislation, by the terms of the plan rules, or by a plan administrator who is empowered to do so, on which the right to receive a commuted value becomes effective.
- .07 In the event that recomputation is required in accordance with these standards, a new valuation date ~~the actuary would be established a new valuation date.~~ The actuary ~~Calculations would be made~~ calculations at the new valuation date in accordance with the standards in effect on the new valuation date.

Conditions attached to payment

- .08 Applicable legislation or the terms of the plan provisions may attach conditions to the payment of ~~a portion of the full~~ commuted value when the plan is less than fully funded on a plan termination basis.

Benefit entitlement

- .09 The following applies except for commuted values calculated in accordance with subsection 3570. Subject to paragraph 3530.06.3, ~~Where,~~ at the valuation date, a plan member has the right as a deferred or immediate pensioner, as may be applicable, to optional forms of pension ~~or optional commencement dates~~, and where such right is contingent on an action that is within the member's control and where it is reasonable to assume that the member will act so as to maximize the value of the benefit, the option that has the greatest value would be used in ~~the determination of~~ the commuted value. For example, where a member has terminated employment and, upon application, is eligible for a particular benefit such as a subsidized joint and survivor form of pension that has a value, it is reasonable to assume that, upon acquiring expert advice, the member will apply for the benefit.
- .10 ~~Repealed However, where such right is contingent upon an action that is within the member's control and where it is not reasonable to assume that the member will act so as to maximize the value of the benefit, an appropriate allowance would be made for the likelihood and timing of such action. For example, where a member is continuing in employment and is entitled to an unreduced pension that commences upon termination of employment, it may not be reasonable to assume that the member will immediately terminate employment in order to maximize the value of the benefit. In determining the likelihood and timing of such action, the actuary may use group data, and the actuary would be prepared to justify the allowance that has been made.~~

- .11 The commuted value ~~determined by the actuary~~ using these assumptions made in accordance with the preceding paragraph 3520.09 and subsequent paragraphs 3530.06 and 3530.06.3 3520.10 may prove to have recognized certain potential entitlements that are never realized, or may prove to have disregarded certain entitlements that ultimately provide value.

Alternative methods and assumptions

- .12 ~~The actuary~~ A commuted value may be calculated ~~a commuted value based~~ on methods and assumptions that differ from those prescribed in these standards only if:
- The resulting value is larger; and
 - Such value is required by the terms of the plan terms or applicable legislation, or by a plan administrator who is empowered to specify the basis on which commuted values are to be determined.

3530 Demographic Assumptions

- .01 Except for situations specifically noted below, the ~~actuary following~~ should be assumed:
- Separate mortality rates for male and female members; and
 - Except for commuted values calculated in accordance with subsection 3570, ~~M~~mortality rates in accordance with a mortality table promulgated from time to time by the Actuarial Standards Board for the purpose of these calculations. [Effective ~~February 1, 2014~~December 1, 2020]
- .02 No adjustment should be made to reflect the health or smoker status of the member. [Effective February 1, 2014]
- .03 The ~~current~~ age of the plan member on the valuation date should be used when valuing a ~~an immediate~~ pension. [Effective ~~February 1, 2014~~December 1, 2020]
- .04 If the plan provides a contingent benefit only to the person who is the plan member's spouse at the date of termination of membership, the actual age of the spouse, if any, should be used in the computation. If this information cannot be obtained, an appropriate proportion married and age difference between the plan member and spouse should be assumed. [Effective February 1, 2018]
- .05 Where the plan provides a contingent benefit to a plan member's spouse and a change in the member's marital status after the valuation date is relevant to the determination of the commuted value, an appropriate assumption ~~the actuary~~ should be made ~~an appropriate assumption~~ concerning the likelihood of there being an eligible spouse, and the age of that spouse, at the time of death. [Effective ~~February 1, 2014~~December 1, 2020]

.06 The following applies, except for commuted values calculated in accordance with subsection 3570. When valuing deferred pensions, including deferred pensions for a plan member who may also be entitled to an immediate pension, the normal retirement age should be used, except in the situation where the terminated plan member has the right to elect an earlier commencement date and the consequent early retirement pension exceeds the amount that is of actuarial equivalent value to the pension payable at normal retirement age. In this case, subject to paragraph 3530.06.3, it should be assumed with a probability of 50% that retirement will occur at the age that would result in the highest commuted value and with a probability of 50% that retirement will occur at the earliest age at which the plan member will be entitled to an unreduced lifetime pension. In the situation where the terminated plan member's age on the valuation date is greater than or equal to the earliest age at which the plan member will be entitled to an unreduced lifetime pension, subject to paragraph 3530.06.3, the valuation date should be used as the assumed retirement date, with the commuted value incorporating any retroactive payments required by applicable legislation.~~The retirement age should be determined in a manner consistent with paragraph 3520.09.~~
[Effective ~~February 1, 2018~~ December 1, 2020]

.06.1 For the purposes of paragraph 3530.06, where the early retirement reductions for a deferred pension are different for different periods of accrued service, the retirement age that would result in the highest commuted value would reflect the value of the pension earned for all periods of accrued service combined. However, the age at which the plan member will be entitled to an unreduced lifetime pension would be determined separately for each period of accrued service.

.06.2 For the purposes of paragraph 3530.06, where the amount of a member's deferred pension is affected by limits imposed by the Income Tax Act (Canada), the earliest retirement age at which the plan member will be entitled to an unreduced lifetime pension would be the earliest retirement age at which the largest lifetime pension will be paid from the registered pension plan.

.06.3 However, where a right described in paragraph 3520.09 or 3530.06 is contingent upon an action that is within the member's control and where it is not reasonable to assume the retirement assumption determined in accordance with paragraph 3530.06 or where it is not reasonable to assume that the member will always act to maximize the value of the benefit under paragraph 3520.09, an appropriate assumption would be made for the likelihood and timing of such action. For example, where a member is continuing in employment and is entitled to an unreduced pension that commences upon termination of employment, it may not be reasonable to assume that the member will immediately terminate employment in order to become eligible for an immediate benefit. In determining the likelihood and timing of such action, group data may be used.

.07 The demographic assumptions would be the same for all types of immediate and deferred pensions.

Mortality

- .08 ~~The actuary would calculate c~~Committed values ~~that do would~~ not vary according to the sex of the plan member ~~where the actuary is when~~ required ~~to do so~~ by applicable legislation or by the ~~provisions terms~~ of the plan or by the ~~plan administrator~~ if the administrator is so empowered by the ~~provisions terms~~ of the plan. In this case, ~~the actuary would adopt~~ a blended mortality approach would be adopted by either developing a mortality table based on a combination of male and female mortality rates, or computing the commuted value as a weighted average of the commuted value based on male mortality rates and that based on female mortality rates. The relative proportions of males versus females would be appropriate for the particular plan.
- .09 If the requirement that commuted values do not vary according to the sex of the plan member is legislated and applies only to benefits earned after a particular date or only to a subgroup of plan members, ~~the actuary may extend~~ the use of a blended mortality approach may be extended to commuted values of benefits earned prior to such date or to commuted values of benefits of all members.

3540 Economic Assumptions

- .01 ~~The actuary should select e~~Economic assumptions that vary depending on whether the pension is fully indexed, partially indexed, or non-indexed should be selected. For commuted values calculated in accordance with subsection 3570, the economic assumptions should be determined in accordance with subsection 3570. [Effective ~~April 1, 2009~~December 1, 2020]
- .02 ~~If the valuation date is on or before January 31, 2011, the actuary should select e~~Economic assumptions should be selected based that depend on the reported rates for the applicable CANSIM series for the ~~second~~ calendar month immediately preceding the month in which the valuation date falls. ~~If the valuation date is on or after February 1, 2011, 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 valuation date falls.~~ [Effective ~~April 1, 2009~~December 1, 2020]
- .03 ~~The actuary should calculate t~~Two interest rates and two rates of pension escalation, when, one applicable, should be calculated. The first rate is applicable to the first 10 years after the valuation date and the second is applicable to all years thereafter. [Effective ~~April 1, 2009~~December 1, 2020]
- .04 The commuted value of a fully or partially indexed pension should be at least equal to the commuted value applicable to a non-indexed pension in the same amount and having similar characteristics. [Effective April 1, 2009]

- .05 The ~~actuary should determine from the CANSIM series the~~ following three factors should be determined from the CANSIM series:-

CANSIM Series	Description	Factor
V122542	Seven-year Government of Canada benchmark bond yield, annualized (final Wednesday of month)	i_7
V122544	Long-term Government of Canada benchmark bond yield, annualized (final Wednesday of month)	i_L
V122553	Long-term real-return Government of Canada bond yield, annualized (final Wednesday of month)	r_L

Note that the factors determined above are not the reported CANSIM series, but the annualized value of the reported figure. [Effective ~~April 1, 2009~~December 1, 2020]

- .06 ~~The actuary should also determine a~~ fourth factor should also be determined, calculated as follows:

$$r_7 = r_L * (i_7 / i_L)$$

[Effective ~~April 1, 2009~~December 1, 2020]

.06.1 Four bond yield spreads should be determined, based on the index yields for the final Wednesday of the calendar month immediately preceding the month in which the valuation date falls, calculated as follows:

$$PS_{1-10} = \text{(Canada Mid-term provincial bond index yield, annualized)} - \text{(Canada Mid-term federal non-agency bond index yield, annualized)}$$

$$CS_{1-10} = \text{(Canada Mid-term corporate bond index yield, annualized)} - \text{(Canada Mid-term federal non-agency bond index yield, annualized)}$$

$$PS_{10+} = \text{(Canada Long-term provincial bond index yield, annualized)} - \text{(Canada Long-term federal non-agency bond index yield, annualized)}$$

$$CS_{10+} = \text{(Canada Long-term corporate bond index yield, annualized)} - \text{(Canada Long-term federal non-agency bond index yield, annualized)}$$

The bond index yields, before being annualized, referred to in this paragraph 3540.06.1 are the average semi-annual mid market yields to maturity for each index published by FTSE Canada Debt Capital Markets at the market close on the final Wednesday of the calendar month immediately preceding the month in which the valuation date falls, or such other bond index yields or calculation bases that may be promulgated from time to time by the Actuarial Standards Board for purposes of these calculations.

The bond index yields used to calculate PS_{1-10} , CS_{1-10} , PS_{10+} , or CS_{10+} are not the yields published, but the annualized value of the published figures.

If PS_{1-10} , CS_{1-10} , PS_{10+} , or CS_{10+} as calculated above is less than zero, the bond yield spread should be set equal to zero. [Effective December 1, 2020]

.06.2 Two spread adjustments should be determined as follows:

$$s_{1-10} = (0.667 * PS_{1-10}) + (0.333 * CS_{1-10})$$

$$s_{10+} = (0.667 * PS_{10+}) + (0.333 * CS_{10+})$$

If s_{1-10} or s_{10+} as calculated above is more than 1.5%, the spread adjustment should be set equal to 1.5%. [Effective December 1, 2020]

.07 ~~The actuary should determine the interest rates from the following~~ interest rates should be used to calculate commuted values:

	<u>Non-Indexed Interest rates</u>	<u>Indexed</u>
First 10 Years	$i_{1-10} = i_7 + \underline{S_{1-10}} 0.90\%$	$r_{1-10} = r_7 + 0.90\%$
After 10 Years	$i_{10+} = i_L + 0.5 * (i_L - i_7) + \underline{S_{10+}} 0.90\%$	$r_{10+} = r_L + 0.5 * (r_L - r_7) + 0.90\%$

~~[Effective April 1, 2009~~ December 1, 2020]

.08 ~~Repealed The actuary should calculate the commuted value of a non-indexed pension using a two-tier interest rate of:~~

~~i_{1-10} for the first 10 years and i_{10+} thereafter. [Effective April 1, 2009]~~

.09 ~~For pensions that are~~ The actuary should calculate the commuted value of a pension that is fully indexed to increases in the Consumer Price Index the rates of pension escalation should be determined based on the implied rates of increase in the Consumer Price Index for any escalation falling within the first 10 anniversaries of the valuation date inclusive, and thereafter determined as follows:

	<u>Implied rates of increase in CPI</u>
<u>First 10 Years</u>	$\underline{C_{1-10}} = (1+i_7) / (1+r_7) - 1$
<u>After 10 Years</u>	$\underline{C_{10+}} = (1+i_L + 0.5 * (i_L - i_7)) / (1+r_L + 0.5 * (r_L - r_7)) - 1$

~~using a two-tier interest rate of:~~

~~r_{1-10} for the first 10 years and r_{10+} thereafter. [Effective April 1, 2009~~ December 1, 2020]

~~The UP-94 Table and Projection Scale AA were published in the Transactions of the Society of Actuaries, Volume XLVII (1995).~~

- .10 ~~.20~~ For pensions that are partially indexed to increases in the Consumer Price Index, ~~the actuary should determine the implied rates of increase in the Consumer Price Index in the first 10 years and thereafter that make the above assumptions for non-indexed and fully indexed pensions internally consistent. The actuary should then determine the rates of of pension escalation that are produced~~ should be determined by applying ~~to those implied rates of increase in the Consumer Price Index~~ the partial indexing formula of the plan to those rates of increase in the Consumer Price Index, determined in accordance with paragraph 3540.09. The actuary should determine the adjusted interest rates applicable to partially indexed pensions by appropriately reducing on a geometric basis the non-indexed rates of interest to reflect the rates of pension escalation. [Effective ~~April 1, 2009~~ December 1, 2020]
- .11 ~~.21~~ Where ~~increases rates~~ in pension escalations are related to increases in the average wage index, ~~the actuary~~ it should be assumed that the average wage index will increase at rates that are one percentage point higher than the ~~implied~~ rates of increase in the Consumer Price Index. [Effective ~~April 1, 2009~~ December 1, 2020]
- .12 A pension that is indexed according to an excess interest approach involves increases that are linked to the excess of formula A over formula B, where A is some proportion of the rate of return on the pension fund or on a particular class of assets, and B is a base rate or some proportion of the rate of return on another asset class. In determining the interest rates under formula A and formula B, ~~the actuary should use~~ the interest rates determined in accordance with paragraph 3540.07 should be used applicable to a non-indexed pension as a proxies for the rate of return on the pension fund or on any particular asset class for which the rate of return is expected to be equal to or greater than the non-indexed interest rates determined in accordance with paragraph 3540.07. [Effective ~~February 1, 2018~~ December 1, 2020]

.13 Prior to calculating the commuted value, ~~the actuary should round~~ the rates of interest and/or rates of pension escalation determined in accordance with this subsection 3540 should be adjusted using either of the following approaches:

- Round each of the rates of interest and rates of pension escalation to the nearest multiple of 0.10%; or
- Round to the nearest multiple of 0.10%
 - The rates of interest, and
 - The compound difference between the rates of interest and the rates of pension escalation (the “rounded interest rates net of pension escalation”).

The final rates of pension escalation would then be determined based on the compound difference between the rounded rates of interest and the rounded interest rates net of pension escalation. This approach produces rounded interest rates, unrounded rates of pension escalation and rounded interest rates net of pension escalation.

Any rates of interest, increase, or escalation used in calculations prior to the final step of the determination should not be rounded. to the nearest multiple of 0.10%. The actuary should round only the interest rates to be used in the calculation of the commuted value. The actuary should not round any rates of interest, increase or escalation used in calculations prior to the final step of the determination. [Effective ~~February 1, 2018~~December 1, 2020]

Pension index frequency

.14 ~~For an indexed pension, the actuary would apply the indexed interest rates as determined above without adjustment only if the frequency of indexing is equal to the payment frequency.~~ Reasonable approximations may be used to ~~calculate an adjustment that takes~~ into account the specific circumstances of the situation regarding payment frequency, indexing frequency, and time and amount of the first increase of pension escalations.

Pension indexed on an excess interest formula

- .15 If the pension is indexed on an excess interest formula and the particular asset class is one for which the rate of return is expected to be less than the ~~non-indexed~~ interest rates determined in accordance with paragraph 3540.07, ~~the actuary would appropriately reduce in determining the rate of interest to reflect the actuary's expectation of the difference between the non-indexed interest rates determined in accordance with paragraph 3540.07 and the expected~~ rate of return on ~~the a~~ particular asset class. ~~In determining the expected rate of return on a particular asset class~~ for this purpose, ~~the actuary would be guided by~~ the current economic environment as well as future expectations would be considered~~long-term historical experience~~.

Other modifications

- .16 Where pension escalation rates ~~benefit adjustments are based on one of the above approaches but~~ are either modified by applying a maximum or minimum annual increase, with or without carry forward of excesses or deficiencies to later years, or modified by prohibiting a decrease in a year where the application of the formula would otherwise cause a decrease in pension, the pension escalation ~~actuary would adjust the interest~~ rates otherwise applicable would be adjusted, based on the likelihood of the modification causing a material change in the pension payable in any year. In determining such likelihood, ~~the actuary would be guided by~~ the current economic environment as well as future expectations would be considered. Either a stochastic or deterministic analysis may be used to determine the pension escalation ~~long-term historical experience. The actuary would be prepared to justify any such adjustment or lack of adjustment to the interest~~ rates.

.16.1 Where pension escalation rates are based on the funded status of the pension plan, the pension escalation rates otherwise applicable would be adjusted, based on the likelihood of the plan's funded status causing a material change in the pension payable in any year. In determining such likelihood, the current funded status of the plan and the projected funded status in future years would be considered in determining the pension escalation rates. A stochastic or deterministic analysis may be used to determine the pension escalation rates.

- .17 Where ~~increases in benefits~~ pension escalation rates are not determined by reference to increases in the Consumer Price Index, ~~the actuary would ensure that~~ the commuted value ~~is not in~~ would be consistent with the values of non-indexed pensions and fully indexed pensions.

Alternative calculation method

- .18 ~~Repealed For pensions that are either fully or partially indexed, rather than using the implicit approach described above, the commuted value may be determined explicitly by indexing each expected payment based on the indexing rate that makes the assumptions for non-indexed and fully indexed pensions, prior to rounding under paragraph 3540.13, internally consistent.~~

3550 Disclosure

.01 When communicating the amount of the commuted value of a member's pension, the ~~following actuary~~ should be provided:

- A description of the benefit entitlements involved.~~;~~
- A description of the actuarial assumptions used in determining the commuted value and the rate of interest to be credited between the valuation date and the first day of the month in which the date of payment is made. For indexed pensions, both the non-indexed nominal interest rates and the pension escalation assumptions should be disclosed separately.
- A statement of the period for which the commuted value applies before recomputation is required.~~;~~
- When the payment of a portion of the full commuted value is subject to a condition based on the funded status of the plan, the additional contribution required for the payment of the full commuted value to be made or the recommended schedule for payment of the balance of the commuted value, if applicable.~~;~~and
- A statement that, because the commuted value is based on a number of assumptions, the retirement income provided by the commuted value may be either greater or less than the pension payments that the member would have received from the pension plan.
- A statement as to whether the commuted value has been computed in accordance with these standards. [Effective ~~February 1, 2018~~December 1, 2020]

.02 Where the commuted value has not been determined in accordance with these standards, ~~the actuary~~ should be clearly stated that the calculation is not in compliance with these standards and, ~~disclose all unless the~~ areas of noncompliance are due to the requirements of applicable legislation, the areas of noncompliance and the reasons for the noncompliance should be disclosed. [Effective ~~April 1, 2009~~December 1, 2020]

.03 When communicating to the ~~plan administrator~~ an actuarial basis to be used in determining commuted values, ~~the actuary~~ should be stated ~~provide a statement~~ that the actuarial basis is in accordance with these standards. [Effective ~~February 1, 2018~~December 1, 2020]

.03.1 The disclosures in paragraphs 3550.01 to .03 above and paragraph 3570.12 would be made in both an external user report and a written internal user report.

Disclosure of plan values which differ from these standards

- .04 In a situation where the use of commuted values (called plan values in this subsection 3550) that are different from those computed in accordance with this section 3500, is required by the terms of the plan terms or applicable legislation, or by a plan administrator who is empowered to specify the basis on which commuted values are to be determined, the following disclosure requirements are applicable:
- If the plan values are lower, ~~the actuary~~ it should be disclosed that the commuted values so calculated are in accordance with the terms of the plan or the applicable legislation but not in accordance with the standards; or
 - If the plan values are higher, ~~the actuary~~ it should be disclosed that the commuted values so calculated are in accordance with the terms of the plan or the applicable legislation and the standards. [Effective ~~February 1, 2018~~ December 1, 2020]
- .05 Where ~~the actuary is required to calculate~~ commuted values that do not vary according to the sex of the plan member are required to be calculated, and where that requirement applies only to benefits earned after a particular date or only to a subgroup of plan members, ~~the actuary should describe~~ the extent to which the ~~actuary's~~ blended mortality approach has been extended to benefits earned before the particular date or to benefits of all members should be described. [Effective ~~April 1, 2009~~ December 1, 2020]
- .06 Where ~~the actuary uses~~ assumptions or methods described in these standards are used to calculate a commuted value in a situation where these standards ~~do~~ not apply, ~~the actuary~~ it should not be stated or implied that the commuted value has been computed in accordance with these standards. [Effective ~~February 1, 2018~~ December 1, 2020]

3560 Reduced Life Expectancy

- .01 The standards in this subsection 3560 ~~apply~~ to ~~an actuary's~~ advice on the computation of commuted values, from a registered pension plan, where the right to receive the lump sum is based on subsection 51.1 of the regulations to the Ontario Pension Benefits Act. These standards may also be applicable in other directly comparable situations.
- .02 These standards do not apply where the right to receive a lump sum is not conditional upon medical certification, under legislation, or the terms of the plan provisions, even if the former member is known to be terminally ill.
- .03 All standards set out in ~~preceding subsections of~~ section 3500 apply, except as superseded by the following recommendations.

- .04 The commuted value should be calculated as of the date of the medical certificate specifying that the former member has life expectancy less than two years, even if other conditions for payment of the benefit (such as spousal consent) are not met until a later date. [Effective April 1, 2009]
- .05 The commuted value should be adjusted for interest and benefits paid to the date of payment. [Effective April 1, 2009]
- .06 The computation should not be adjusted to reflect the actual death or change in health of the former member after the valuation date. However, if a former pension plan member becomes eligible for immediate commencement of a pension after the date of the medical certificate and prior to payment of the benefit, this eligibility should be reflected in the calculation. [Effective April 1, 2009]
- .07 If the former member is entitled to a commuted value transfer based on the terms of the plan provisions or legislation that is not conditional on reduced life expectancy, the amount payable should be the greater of the amount calculated in accordance with this subsection 3560 and the amount computed in accordance with subsections 3520 through 3540 and subsection 3570, if applicable, without regard to shortened life expectancy. [Effective ~~April 1, 2009~~ December 1, 2020]

Benefit Entitlement

- .08 The commuted value would reflect the plan member's full benefit entitlement as a deferred or immediate pensioner, as may be applicable, determined under the terms of the pension plan.

There are three possible cases:

- (a) ~~a~~A former member with deferred pension entitlement, not eligible for immediate commencement of pension.

In this case, the commuted value would reflect the present value of the death benefits that would be payable in respect of the former member. For this purpose, the value of the death benefit would be calculated as of the valuation date, assuming the former member died as of the valuation date.

- (b) ~~a~~A former member with deferred pension entitlement, eligible for immediate commencement of pension.

In this case, the lump sum value would be the greater of the amount determined as in (a) above and a value determined as if the member had retired at the date of valuation and elected the most favourable combination of the highest surviving spouse pension permitted by the plan (if there is an eligible spouse) and the longest guaranteed period available under the plan. This value would be determined as for pensioners in (c) below.

- (c) ~~a~~A former member in receipt of pension.

In this case, the commuted value would reflect the present value of pension payments for a period certain of four months from the valuation date, any additional guaranteed payments and any survivor benefits potentially payable.

Disclosure

- .09 When communicating the amount of the commuted value of a member's pension, ~~the actuary would also provide~~ a description of the survival period assumption would be provided.

3570 Target Pension Arrangements

- .01 The standards in this subsection 3570 apply to the determination of commuted values of pensions and deferred pensions payable from target pension arrangements, such as certain target benefit plans and multi-employer pension plans. A target pension arrangement is a pension plan for which applicable legislation contemplates the reduction to the accrued pensions of plan members and beneficiaries while the pension plan is ongoing as one of the available options for maintaining the funded status of the pension plan, and where the reduction in accrued pensions is not necessarily caused by the financial distress of the plan sponsor or sponsors.

.02 All standards set out in preceding subsections of section 3500 apply, unless indicated otherwise or as superseded by the following recommendations.

.03 A commuted value calculated in accordance with the going concern assumptions and methods of this subsection 3570 is intended to represent the economic value of the immediate or deferred pension that would have been paid from the target pension arrangement in accordance with the terms of the pension plan and applicable legislation.

.04 The commuted value should be calculated as the actuarial present value on the valuation date of the member's benefit entitlement as a deferred or immediate pensioner and, subject to the paragraphs that follow in this subsection 3570, determined using the same going concern assumptions as used in the most recent funding actuarial valuation report or cost certificate filed with the applicable pension regulator. [Effective December 1, 2020]

.05 The actuarial present value of the member's benefit entitlement may be adjusted to reflect the funded status of the pension plan or to reflect the member's share of the plan assets, only as required by applicable legislation or by the terms of the plan, as described in official plan documents such as a plan text, benefits policy, and/or collective agreement. The funded ratio of the plan used to determine the adjustment should be calculated in accordance with accepted actuarial practice and should be based on a valuation date no earlier than the valuation date of the most recent funding actuarial valuation report or cost certificate filed with the applicable pension regulator. Subject to the exceptions in paragraphs 3570.09 and 3570.10, the assumptions used to calculate the funded ratio of the plan should be consistent with the assumptions used to calculate the actuarial present value of the member's benefit entitlement and there should be consistency with respect to the inclusion or exclusion of provisions for adverse deviations in the calculations, unless the actuary determines that consistency is not appropriate due to an unusual situation, in which case the actuary would describe and justify the rationale for such lack of consistency. [Effective December 1, 2020]

Assumptions

.06 The assumptions used to calculate the commuted value would be the assumptions used for the pension plan's going concern valuation from the most recent funding actuarial valuation report or cost certificate filed with the applicable pension regulator.

- .07 Notwithstanding paragraph 3570.06, the commuted value would not include any margins for adverse deviations in the assumptions or provisions for adverse deviations that are reflected in the going concern valuation, unless their inclusion in the commuted value is required by applicable legislation or by the terms of the plan, as described in official plan documents such as a plan text, benefits policy, and/or collective agreement.
- .08 Notwithstanding paragraph 3570.06, the interest rate used to calculate the commuted value would be net of any adjustment for investment expenses and, if required by applicable legislation or by the terms of the plan as described in official plan documents such as a plan text, benefits policy, and/or collective agreement, would be adjusted for any non-investment expenses that are expected to be paid from the pension plan's assets.
- .09 Notwithstanding paragraph 3570.06 and subject to paragraph 3570.10, when calculating the commuted value of a deferred pension, the assumptions used to determine the actuarial present value of the member's benefit entitlement would be assumptions that are appropriate for purposes of performing an actuarial valuation of a pension plan consisting of only the group of deferred pensioner members of the plan. The actuary would use judgment in such circumstances. For example, in the case of the going concern valuation from the most recent funding actuarial valuation report of a plan filed with the applicable pension regulator, the age that deferred pensioner members are assumed to commence their pension may not be a material assumption and therefore the normal retirement age was used. However, if deferred pensioner members have the right to elect an earlier commencement date and the consequent early retirement pension exceeds the amount that is of actuarial equivalent value to the pension payable at normal retirement age, it may be appropriate to assume pension commencement at an earlier age for purposes of calculating the commuted value.
- .10 Notwithstanding paragraph 3570.06, with the exception of variations based on age and sex, the mortality assumption used to calculate the commuted value would be an assumption that is appropriate for the overall plan membership and would not vary for different subsets of the plan population.

Combination plans

- .11 Some plans provide certain benefits that fall within the definition of the benefits provided by target pension arrangements, while other benefits provided by the plan fall within the scope of this section 3500, but do not fall within the definition of the benefits provided by target pension arrangements. For these plans, the commuted value of the benefits that fall within the definition of the benefits provided by target pension arrangements would be calculated in accordance with this section 3500, including subsection 3570. The commuted value of the benefits that do not fall within the definition of the benefits provided by target pension arrangements would be calculated in accordance with this section 3500, but would not reflect the requirements of subsection 3570.

Disclosure

.12 In addition to the disclosures specified in preceding subsections of section 3500, any adjustments determined in accordance with paragraph 3570.05 should be disclosed. Adjustments determined in accordance with paragraph 3570.05 are considered to be a component of the calculation of a commuted value that is in accordance with the standards. [Effective December 1, 2020]