



Memorandum

To: All Fellows, Affiliates, Associates and Correspondents of the Canadian Institute of Actuaries, and other interested parties

From: Edward Gibson, Chair
Actuarial Standards Board

Kelley McKeating, Chair
Designated Group

Date: November 30, 2022

Subject: **Final Standards of Practice: Parts 1000 and 4000 – General Standards and Practice-Specific Standards for Actuarial Evidence**

Document 222160

Introduction

The attached final standards were approved by the Actuarial Standards Board (ASB) on November 23, 2022. These changes revise the practice-specific standards for actuarial evidence (Part 4000), as well as paragraph 1460.09 of the general standards (which also pertains to actuarial evidence).

Background

In late 2019, the ASB established a designated group (DG) to review the Standards of Practice for actuarial evidence work (Part 4000 and portions of Part 1000 – AE-SOP). A [notice of intent](#) (NOI) was issued in July 2020, with a September 30, 2020 comment deadline.

Substantive comments regarding the NOI were received from the Actuarial Evidence Committee (AEC) and three members of the CIA. Comments from one external organization and one CIA member did not pertain to the AE-SOP and were forwarded to other entities for appropriate action.

The DG reviewed and considered all comments received subsequent to the NOI, and took those comments into account when developing an [exposure draft](#) (ED) which was issued in June 2022 with a comment deadline of September 30, 2022.

Two submissions regarding the ED were received:

- The AEC indicated its support for the revised AE-SOP as presented in the ED.
- One member expressed concern regarding certain elements of the ED.

As a result of the member's comments, the DG made two minor changes to the ED of the AE-SOP before submitting it to the ASB for final approval.

Due process

The ASB's *Policy on Due Process for the Adoption of Standards of Practice* has been followed in the development of these revisions to the standards.

Effective date and early adoption

These final standards are to become effective on January 1, 2023. Early adoption is **not** permitted.

Discussion of exposure draft comments received

Comment re paragraph 1460.09 (quality assurance/peer review)

The member is concerned that the proposed changes to paragraph 1460.09 narrow the scope of the “exemption” from peer review.

Response

The DG is of the view that the revised wording of paragraph 1460.09 is clearer, and an improvement over the prior wording.

Subsection 1460 of the SOP should be considered in its entirety. According to Subsection 1460, peer review is just one of the many quality assurance processes that actuaries may employ in their work. Since peer review per se is not required under Subsection 1460, paragraph 1460.09 is not (and was not) an “exemption”. Instead, it is a clarification.

It is the DG’s understanding that the prior paragraph 1460.09 was inserted into Subsection 1460 as the result of discussions between the ASB and the AEC regarding the role of peer review in actuarial evidence work. For the reasons outlined in the covering memo that accompanied the ED, the DG determined that the prior wording of paragraph 1460.09 did not clearly address the special circumstances regarding actuarial evidence work. The DG worked with the current ASB on improvements to paragraph 1460.09 to clarify that peer review may be precluded in actuarial evidence work due to the circumstances of that work (a dispute resolution proceeding, often a court or court-related process).

Comment re paragraph 4210.03 (circumstances affecting the work)

The member noted that no change had been made.

Response

This was an oversight on the part of the DG. The second bullet has now been changed to replace the word “division” with “valuation” in accordance with the NOI.

Comment re paragraph 4260.01 (assumptions stipulated by terms of engagement)

The member is opposed to the proposed change on the basis that the change imposes a requirement on the actuary to decide whether or not instructions are plausible, in areas of actuarial evidence work where that requirement did not previously exist.

The member also suggested that the term “plausible” be defined in the AE-SOP.

Response

Actuaries should use professional judgment in deciding whether or not a stipulated assumption is plausible. This “plausible instructions” requirement has existed since December 31, 2013, for all areas of actuarial evidence work except pension valuations on relationship breakdown and calculations of criminal rates of interest. The DG is of the opinion that it is reasonable to expand this requirement to all areas of actuarial evidence work.

Accepting an instruction to use implausible assumptions and reflecting those assumptions in actuarial evidence work is not helpful to either the parties or the court. This relocated paragraph should assist actuaries who want to “push back” when faced with a client who wishes to stipulate an implausible assumption.

Comment re paragraph 4510.01 (scope, pension valuations on relationship breakdown)

The member informed the DG that the Alberta Family Property Act was recently amended to give property rights to interdependent adult partners. The member suggested that the AE-SOP be modified to explicitly

mention relationships between interdependent adult partners and further suggested that, in the absence of such modifications, Section 4500 would not apply to such relationships.

Response

The AE-SOP is principles-based, not rules-based. Actuaries should use professional judgment in doing their work. The DG believes that most actuaries would use the prescribed methodology and assumptions of Section 4500 for any pension valuation performed in the context of an equalization or division of property after the breakdown of a marriage-like relationship.

This said, it is reasonable to adopt more inclusive wording in the AE-SOP. The DG therefore proposed to the ASB that paragraph 4510.01 be further modified to read as follows:

“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 property at the breakdown of the marriage, common-law relationship, or other adult interdependent relationship of a plan member.”

Paragraph 4510.05 has been similarly modified.

Comment re paragraph 4520.26 (income tax adjustments)

The member is concerned with both the prior wording and the revised wording of this paragraph, which pertains to income tax adjustments to convert the pre-tax value of a pension to an after-tax value.

Response

Income tax adjustments are prepared by actuaries in order to assist the parties or the court in identifying an appropriate after-tax value for a pension or other retirement savings vehicle. Such calculations are part of the asset valuation process. They are prepared routinely and frequently in some jurisdictions, but much less frequently in other jurisdictions.

The DG appreciates this member having pointed out the deficiencies in the prior wording of this paragraph. The revised wording better reflects existing actuarial practice in the jurisdictions where such calculations are routinely and frequently performed.

It should be noted that paragraph 4520.27 (which follows paragraph 4520.26) allows the actuary to report other useful calculations that take income tax into account.

Comment re Subsection 4530 (assumptions, pension valuations on relationship breakdown)

The member is of the opinion that the economic assumptions for pension valuations on relationship breakdown should be reviewed more frequently than the current target quinquennial review cycle.

Response

The DG respectfully disagrees with the member.

The select assumptions for interest and inflation are formula-based and change every month. The DG is of the view that a quinquennial review of those formulas is reasonable and sufficient.

The ultimate assumptions reflect long-term expectations. These rates should be relatively stable and would not be expected to change from year to year.

Comment re paragraph 4530.11 (ultimate inflation assumption)

The member is of the opinion that the ultimate inflation assumption should remain at 2.25%, for reasons consistent with the recommendations of the Marriage Breakdown Working Group that was established by the AEC to advise the DG of the day when Section 4500 was last reviewed.

Response

The DG is of the view that either 2% (the proposed assumption) or 2.25% (the prior assumption) would be a reasonable assumption for annual inflation after the 20-year select period.

For actuarial evidence work pertaining to personal injury and wrongful death, a 2% inflation assumption is commonly used in jurisdictions where the rules of court do not prescribe the inflation assumption. The DG has been told that most pension plans use a long-term inflation assumption of 2% in their valuations.

Since both options under consideration (2% or 2.25%) were viewed as reasonable, the DG determined that the assumption that was best aligned with other areas of actuarial evidence work and other actuarial practice areas should be adopted.

Comment re paragraph 4630.02 (criminal rate of interest)

The member is of the opinion that actuaries should be permitted to report a negative rate of interest when a criminal interest rate calculation results in more than one solution (with one of those solutions being a negative rate of interest).

Response

The DG is unaware of any real-world situations that could result in two solutions to a criminal rate of interest calculation, but acknowledges that there may be hypothetical situations that can be constructed that result in two solutions.

Since the purpose of a criminal rate of interest calculation is to advise the court, in real-world situations, as to whether or not an interest rate being charged is criminal, the DG is of the view that the current wording of this paragraph should not change.

Comment re Subsection 1450 (models)

The member expressed disagreement with the DG's comments on pages 15 and 16 of the covering memo attached to the ED.

Response

Actuaries should use professional judgment in doing their work. If an actuary is of the opinion that some or all of Subsection 1450 applies to their work, regardless of practice area, then the actuary should comply with that subsection to the extent appropriate based on the complexity of the model being used.

If an actuary doing actuarial evidence work is of the opinion that the annuity factors that are used in traditional actuarial evidence work are models as defined by paragraph 1120.40 of the SOP, then that actuary should comply with the relevant sections of the SOP. If an actuary is of the opinion that annuity factors are not models, then the actuary should proceed accordingly. Other sections of the SOP address the issue of minimizing the possibility of computational errors in an actuary's work.

As noted in the ED covering memo, the DG has suggested that the ASB consider a review of the 2017 educational note on the use of models to address two issues identified by the DG.

Members of the DG

The members of the DG are Kelley McKeating (Chair), Craig Allen, Greg Gillis, Jamie Jocsak, Patrick Lefebvre, and David Wolgelerenter. The DG also wishes to recognize the contributions of prior members Neil Chicoine, David Hart, and Don Tettmar.

The DG wishes to acknowledge and thank the technical reviewers who ensured that the French version of the revised AE-SOP was consistent with the English version: Patrick Lefebvre, Daniel Gagné, Maryse Larouche, Guy Martel and Louis Martin.

EG, KM

