Canadian Institute of Actuaries Institut Canadien des Actuaires

MEMORANDUM

TO: All CIA Members

FROM: Peter F. Morse
Vice-President

DATE: August 3, 1993

SUBJECT: **Recommendations for the Computation of Transfer Values from Registered Pension Plans**
Standard of Practice for the Computation of the Capitalized Value of Pension Entitlements on Marriage Breakdown for Purposes of Lump-Sum Equalization Payments

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The Council, on the advice of the Committee on the Adoption of Standards of Practice and, respectively, the Committee on Pension Plan Financial Reporting and the Committee on the Division of Pension Benefits on Marriage Breakdown, has approved the enclosed standards of practice at its meeting on July 13, 1993.

The effective date of both standards of practice is September 1, 1993. The implications of this effective date upon the professional responsibilities of actuaries are discussed in the following paragraphs.

Members should note the continued reference to the standard of practice for the determination of transfer values as “Recommendations.” This nomenclature has been retained in view of the reference thereto in the pension benefits standards regulations of a number of jurisdictions. The Institute will be addressing with the members of the Canadian Association of Pension Supervisory Authorities (CAPSA) the possibility of modification to the respective regulations to reflect the term “standards of practice of the Canadian Institute of Actuaries.”

The economic assumptions to be used in determining transfer values and values of pension entitlements upon marriage breakdown are dependent upon the month-end yields on long-term Government of Canada Bonds (for nonindexed pensions) and long-term Government of Canada Real Return Bonds (for indexed pensions).

The Institute will be contacting the Financial Research Institute to obtain the necessary data each month and will publish in the *Bulletin* the applicable yields for the current month and several preceding months. The initial publication of this information will also contain a history of the month-end yields on Real Return Bonds since their introduction in November 1991.

Information concerning returns on long-term Government of Canada Bonds is published weekly and monthly in the *Bank of Canada Review*. The yields on long-term Government of Canada Real Return Bonds are published weekly in both The *Globe and Mail* and *The Financial Post*.

Recommendations for the Computation of Transfer Values from Registered Pension Plans

The Transfer Value Recommendations were adopted initially by the Institute in November 1986 for a one-year trial period, which was extended in November 1987 for a further one-year period. Effective November 14, 1988, Council approved a revised version of the Transfer Value Recommendations, which remained in effect to the present. Exposure drafts of the revised Transfer Value Recommendations were issued in November 1992 and April 1993. These exposure drafts reflected a revised basis of determining the economic assumptions to be used computing transfer values. The basis for these economic assumptions was set out in the report of the Task Force on Economic Assumptions.

Substantial membership comment was received concerning the exposure drafts and these comments have been reflected by the Committee on Pension Plan Financial Reporting in arriving at the final standard of practice.

It should be noted that the title of the recommendations no longer refers to “minimum” transfer values. This change has taken place because the values are considered to be neutral or “fair” values, not biased in favour of either the member or plan sponsor. The revised recommendations reflect some limitation on the actuary’s freedom to develop larger values than those specified by the recommendations.

The effective date of the recommendations is September 1, 1993. Subject to applicable legislation, the new recommendations should be used for all terminations of employment occurring on or after September 1, 1993. The determination of transfer values in respect of terminations prior to September 1, 1993 should be determined in accordance with the 1988 recommendations, even if the calculation is carried out after August 31, 1993.

The regulations of certain jurisdictions would appear to require application of the new recommendations without changes in the applicable statute. This would appear to apply in British Columbia, Alberta, Saskatchewan, Québec and Nova Scotia. On the other hand, the regulations in the federal jurisdiction, Ontario and New Brunswick identify the 1988 version of the recommendations and thus changes to these regulations will be required or members will need to prepare dual calculations to ensure that the transfer value generated by the current recommendations is not less than that generated by the 1988 recommendations.

The CIA will be corresponding shortly with each of the regulators concerning our revised Transfer Value Recommendations and will advise members of the acceptability of the new recommendations under the various provincial regulations when confirmation is received.

The new recommendations permit higher transfer values to be provided where legislation so requires and also requires that the actuary should “disclose that the transfer values so calculated are in accordance with the plan and the recommendations.” Until the regulations in the federal jurisdiction, Ontario and New Brunswick are modified, a member should appropriately modify this statement to refer to the relevant regulations as well.

It will be noted that paragraph h) of Section 1 of the recommendations indicates that the recommendations do not apply to plan conversions from defined benefit to money purchase. The principal reason the PPFR Committee elected to exclude these conversions is because of the concern that it may not always be appropriate for the conversion value to include the most generous early retirement treatment available under the defined benefit plan. The committee will be examining this issue further.

It is likely that the Institute will initiate a valuation technique paper which will expand on paragraph D of Section 2 (Reflect Full Benefit Entitlement) in order to provide additional guidance for actuaries. The wording of this section will also be discussed with CAPSA at a meeting later this year.

Finally, there are two features of the revised recommendations that should be noted by pension practitioners:

a) it is not acceptable to use unisex values for the computation of all transfer values, unless the authority to do so comes from legislation, the plan text or a plan administrator who is empowered to provide the authority; and

b) the determination of the period for which a transfer value applies before a recomputation is required should be based on applicable legislation, the plan text or a directive of the plan administrator who is empowered to provide such direction.

Members having questions concerning the application of the Transfer Value Recommendations should contact the chairperson or the vice-chairperson of the Committee on Pension Plan Financial Reporting at his *Yearbook* address.

Standard of Practice for the Computation of the Capitalized Value of Pension Entitlements on Marriage Breakdown for Purposes of Lump-Sum Equalization Payments

The development of this standard of practice has followed a lengthy process. Exposure drafts of “recommendations” were previously issued in June 1988 and November 1988. The adoption of these recommendations was put on hold for several years while the Task Force on Economic Assumptions investigated the issue of common assumptions for the Transfer Value Recommendations and Marriage Breakdown Recommendations, following the directive from Council that the economic assumptions underlying computations under each of these sets of recommendations should be identical.

After the Task Force issued its final report, further exposure drafts were issued in November 1992 and April 1993. Substantial written comment was received in respect of each of these exposure drafts and the Committee on the Division of Pension Benefits Upon Marriage Breakdown has considered all comments in arriving at the final standard, which was approved by the Committee on the Adoption of Standards of Practice and ratified by Council. The committee also held several sessions at CIA general meetings and the significant amount of feedback from these sessions also influenced the final content of the standard of practice.

Members should note that although the new standard of practice is effective on September 1, 1993, the economic assumptions to be used for marriage breakdown calculations vary depending on whether the marriage breakdown took place before or after September 1, 1993. This has been done to avoid the necessity of numerous recomputations at the time that the standard of practice becomes effective. The economic assumptions applicable to computations for marriage breakdowns occurring on or before August 31, 1993 are those which were reflected in the November 1988 exposure draft, which had been approved by the Institute for early implementation and which have continued to be used by a number of actuaries practising in the legal evidence field. For computations applicable to marriage breakdowns occurring on or after September 1, 1993, the economic assumptions are identical to those used in the Recommendations for the Computation of Transfer Values from Registered Pension Plans.

It should be noted, however, that the Marriage Breakdown Standard of Practice and the Transfer Value Recommendations contain some differences with respect to the treatment of partially indexed pensions. Council and the Committee on the Adoption of Standards of Practice are satisfied that the standards which have been adopted reflect general practices in the respective fields of practice.

Members having questions concerning the Standard of Practice for the Computation of the Capitalized Value of Pension Entitlements on Marriage Breakdown should contact the chairperson or vice-chairperson of the Committee on the Division of Pension Benefits Upon Marriage Breakdown at his *Yearbook* address.