FINAL

STANDARD OF PRACTICE FOR THE COMPUTATION OF THE CAPITALIZED VALUE OF PENSION ENTITLEMENTS ON MARRIAGE BREAKDOWN FOR PURPOSES OF LUMP-SUM EQUALIZATION PAYMENTS

By authority of Council

Effective date: September 1, 1993

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1. PREAMBLE

The Council of the Canadian Institute of Actuaries has approved the following standard of practice for conduct of a member (hereinafter called the **actuary**) when engaged to compute, or specify the basis to be used for the computation of, the value of a pension entitlement on marriage breakdown for purposes of lump-sum equalization payments under provincial "Family Law Acts" or similar statutes. This standard of practice defines the approved principles by which an actuary shall determine the value of the entitlement of a plan member or the plan member's beneficiary (hereinafter collectively called the **plan member**). This standard of practice represents a basis that is not biased in respect of either the plan member or the spouse of the plan member. Note that no bias for or against a plan sponsor can occur, since this standard of practice does not address in-plan credit-splitting. When viewed after the fact, a lump-sum capitalized value may prove to have recognized certain potential entitlements that are never realized, or may prove to have disregarded certain entitlements that provide additional value. This is a natural product of developing a present value with allowance for future contingent events, and does not constitute a bias in respect of the plan member or the spouse of the plan member.

This standard of practice supersedes all previous drafts, including the Institute's discussion draft entitled "Recommendations Concerning the Capitalized Value of Pension Entitlements on Marriage Breakdown" dated November 1988. The 1988 recommendations never became a binding standard, but were approved by the Institute for early implementation as communicated to the membership in a memorandum dated January 16, 1989.

This standard of practice does not necessarily establish a satisfactory method of determining the value of a pension entitlement on marriage breakdown for purposes of credit-splitting under provincial pension benefits legislation or equivalent (example: Section 29(2)(a)(iii) of New Brunswick Regulation 91-195 under the Pension Benefits Act, O.C.91-1060, filed December 9, 1991). Some legislation prescribes valuation assumptions and/or methods which may contain biases for or against a plan member, the plan member's spouse, or the plan sponsor. Where applicable legislation prescribes valuation assumptions and/or methods, the actuary shall compute credit-splitting entitlements as an agent of the plan administrator using prescribed valuation assumptions and/or methods. Generally, such legislation may mandate the calculation of commuted values "...calculated as if the member or former member had terminated membership on the date mentioned in the order... (pursuant to The Matrimonial Property Act)."[(1)] Where literal presumption of termination of membership is mandated, the actuary should compute values in accordance with the Institute's Recommendations for the Computation of Transfer Values from Registered Pension Plans, in accordance with subparagraph (d) of Section 1 thereof. Where no valuation methods and/or assumptions are prescribed in applicable legislation, this standard of practice shall apply.

The results reported by the actuary should be independent, regardless of whether the actuary has been engaged by the plan member (or the plan member's counsel) or by the

[(1)]This phrase is taken from Section 47(2) of The Pension Benefits Act, 1992, of Saskatchewan.

spouse of the plan member (or the counsel of the plan member's spouse). To the extent that this principle is not adhered to, the actuary must clearly state that the report is not in compliance with this standard of practice and disclose all areas of noncompliance.

This standard of practice applies to all reports prepared on or after the effective date cited on the face page. Actuaries are encouraged to implement this standard of practice at any earlier date. Where a report prepared prior to the effective date is revised, updated, modified or otherwise changed, the actuary must disclose all areas of noncompliance in the prior report, and develop the changed report in accordance with this standard of practice. If an actuary is called upon to testify in respect of a report prepared prior to the effective date of this standard of practice, the actuary should be prepared to identify all areas not in compliance with this standard of practice, and should be prepared to quantify the effect of any aspect not in compliance with this standard of practice.

This standard of practice (which may be referred to briefly as the "Standard of Practice for Marriage Breakdown Computations") deals with economic and demographic assumptions to be used in the valuation of pension entitlements on marriage breakdown for the purposes of lump-sum equalization payments under provincial "Family Law Acts" or similar statutes, with the methods that may be employed for such valuations and with the content of actuarial reports on such valuations. Specific recommendations are made with regard to the methodology to be used in such valuations. The actuary should become familiar with requirements of the relevant jurisdiction for the case and should endeavour to meet fully these requirements. The actuary should also understand fully the difference between an assumption and a matter of fact. Factual matters are subjects for direction by the counsel(s) or decision by a court.

Actuaries must be aware that the Institute has promulgated Recommendations for the Preparation of Actuarial Reports and the Presentation of Evidence before the Courts and Other Tribunals and Recommendations for the Computation of Transfer Values from Registered Pension Plans. The standard of practice contained herein is intended to complement such other standard of practices, not replace or override them. An actuary dealing with the computation of the capitalized value of pension entitlements on marriage breakdown for purposes of lump-sum equalization payments must follow all applicable standards of practice.

The actuary must be careful to avoid any undisclosed conflict of interest and must be sensitive to situations which may be perceived by others to be conflicts of interest. In particular, if the actuary making the valuation also provides actuarial services in connection with the plan concerned, that matter must be disclosed in the report of the valuation. If the actuary is aware that (s)he is an employee of an actuarial firm which provides services in connection with that plan, that matter must also be disclosed in the report of the valuation. An actuary must make every reasonable effort to ascertain whether his or her firm provides services in connection with that plan. If, after reasonable effort, it is unclear whether the firm provides services in connection with the plan, the actuary must state that after taking such reasonable steps, any business relationship remains unclear.

For the purpose of the above paragraph, it is not a conflict of interest to be engaged in the capacity of an expert by the plan member only (or the plan member's counsel), or by the spouse of the plan member only (or the counsel of the spouse of the plan member). Nevertheless, the actuary remains compelled to disclose in a report by whom the actuary was engaged.

2. TERMINOLOGY

Actuary means a member of the Institute engaged to perform, or to provide the basis for, the valuation of a person's pension entitlement under a pension plan or similar program in connection with a lump-sum equalization of property on marriage breakdown.

Method means either the retirement method or the termination method, as each term is described below.

Pension entitlement means benefits provided through any pension plan or similar program payable to a plan member or a plan member's designated beneficiary. The value attributable to a plan member shall exclude any value that is irrevocably vested in the (separated/divorced) spouse of the plan member, and shall further exclude any value that may be provided in respect of a future spouse. The (separated/divorced) spouse may possess an irrevocably vested survivor benefit entitlement that also requires an actuarial valuation, and if so, the actuary must value such entitlement, also in accordance with this standard of practice.

Present value means the value as determined by the actuary on a specified date of a person's pension entitlement under a pension plan or similar program.

A "pension plan or similar program" includes not only registered pension plans, but also includes nonregistered plans that may exist under contracts of employment, excess or top-up plans and retirement compensation arrangements. Partnership buy-out agreements upon retirement, sick-leave buy-out programs, or lump-sum allowances upon retirement may or may not be valued using this standard of practice; appropriate disclosure is required in any event. Such plans or programs do not include individual or group contracts of insurance whose primary purpose is to provide death benefits only or disability benefits only.

Retirement method means a projected accrued benefit valuation method, with salary projection where appropriate.

Termination method means an unprojected accrued benefit valuation method. No increase in accrued benefits shall be reflected, except to the extent such increases are provided to deferred vested pension plan members.

Valuation date means the date as at which a value is being computed, generally, the date of marriage or the date of separation, but also possibly the date of death or a date determined by the court.

For both the retirement method and the termination method, future benefit accruals and possible (or known, with the benefit of hindsight) plan improvements are disregarded. Literal termination of employment or membership is not contemplated. Accrued benefit enhancements and grow-in ancillary benefits (such as the right to unreduced early retirement subject to total age/service combinations, and/or bridging benefits) contingent only upon future service, to the extent accrued at the valuation date, must specifically be addressed by the actuary.

The phrase "must specifically be addressed" means that the actuary must present a separately identified value of such benefits, without any discount for possible future forfeiture.

YMPE means the year's maximum pensionable earnings, as defined in the Canada Pension Plan or the maximum pensionable earnings, as defined in the Québec Pension Plan, whichever may be applicable.

3. General Principles

The underlying principle in this standard of practice is that the reported present value shall be determined in a manner which is equitable to both the plan member and the plan member's spouse. This consideration may require the use of actuarial methods and assumptions different from those employed in determining the present values of pension entitlements for other purposes, including funding, solvency, accounting for pension costs, merger/acquisition/divestiture, or transfer values.

The actuary must take into account all ancillary benefits and available options which are considered material, consistent with the methodology specified in this standard of practice.

Where the actuary is aware that a valuation made as of a date slightly earlier or later than the valuation date would result in a materially different value, due to the design of the plan, the timing of a plan amendment, or circumstances of the plan member, the actuary should disclose this fact.

The reported value should not be reduced on account of the pension plan not being fully funded. If the actuary is aware of extraordinary circumstances wherein the pension plan has defaulted or may reasonably be expected to default upon pension promises or expectations, the actuary should disclose such awareness, and may suggest an appropriate reduction.

Practices in the relevant jurisdiction (i.e., "case law") may determine whether the actuary should utilize the termination method or the retirement method. Case law may also determine details of application of the relevant valuation method. The actuary should not utilize a method or an approach that is inappropriate for the applicable jurisdiction.

Consider the following example.

> At valuation date #1 (e.g., marriage), the plan member had 10 years pensionable service, had accrued $2,000 of annual pension entitlements, which at that date had a value of $5,000. At valuation date #2 (e.g., separation), the plan member had 25 years pensionable service, had accrued $30,000 of annual pension entitlements, which at that date had a value of $240,000.
>
> There are three possible approaches to addressing a member's pension entitlement acquired during marriage. One approach is sometimes referred to as "value added." Such approach develops the pension asset acquired during marriage as follows:
>
> $$\$240{,}000 - \$5{,}000 = \underline{\$235{,}000}$$
>
> A second approach is sometimes referred to as *pro-rata* (on benefits). Such approach develops the pension asset acquired during marriage as follows:
>
> $$\frac{(\$30{,}000 - \$2{,}000)}{\$30{,}000} * \$240{,}000 = \underline{\$224{,}000}$$
>
> A third approach is sometimes referred to as pro-rata (on service). Such approach develops the pension asset acquired during marriage as follows:
>
> $$\frac{(25 - 10)}{25} * \$240{,}000 = \underline{\$144{,}000}$$

One of the features of contributory pension plans is that upon literal termination of employment, a plan member will be entitled, as a minimum, to a return of contributions, with accumulated interest. Pension legislation typically mandates that upon literal termination of employment, a plan member's accumulated contributions may not provide more than 50%

of the value of certain pension entitlements. This is commonly called the "50% rule," and typically operates as in the following example.

> A pension plan member terminates employment, and has pension entitlements, to which the 50% rule applies, with a value of $10,000. The member has related contributions with accumulated interest thereon totalling $8,000. Only $5,000 of the member's accumulated contributions with interest may be applied towards the $10,000 value; the remaining $3,000 is "excess." Thus, at termination, the plan member's total termination entitlement is $13,000.

Where case law dictates that early retirement options are not considered for Family Law Act valuation purposes, the 50% rule should not reflect any additional values resulting from a reduced early retirement option.

The terms of certain pension plans may contain other contribution-related minimum benefit entitlements upon termination of employment (example: a member's total entitlements will never be less than 200% of accumulated member contributions, with interest).

Where any of the values shown in the report exceed the value the member would have received if the member had terminated employment on the valuation date, this fact should be disclosed.

Prior to any adjustment for income tax, the value of a member's pension entitlement must not be less than the amount the member would have received had the member literally terminated employment at the valuation date, under the assumption that transfer value is determined using sex-distinct mortality rates. The actuary may show in a report values reflective of a contribution-related minimum benefit provision either separately or in aggregate.

The actuary shall disclose in the report on the valuation complete information regarding the data, and assumptions and methods used in the valuation. The report must state whether it has been prepared in conformance with this standard of practice. If the report has not been prepared in conformance with this standard of practice, it must specifically disclose any areas of nonconformance, and the reasons for such nonconformance.

The cost of performing the complex calculations that are necessary to provide values in accordance with methods, assumptions and other relevant aspects of these recommendations is an unacceptable rationale for failing to comply with professional standards of practice. The Institute recognizes that customary actuarial fees may present a hardship in certain circumstances, and has committed to exploring this matter further. In the interim, where the pre-tax lump-sum value of such pension is less than $10,000, the actuary may issue an "abridged" report, saying in effect: "I am going into no detail, but I assure you that all my calculations conform to accepted practice." Despite limited disclosure, the actuary should certify that the values contained in his or her report have been computed in accordance with this standard of practice in all respects. The actuary should be prepared to justify his or her work, if called upon to do so. This interim process shall apply for reports issued until the earlier of August 31, 1994, and the release of further standards of practice addressing this specific matter.

4. Actuarial Assumptions

The number and nature of assumptions required in a particular valuation depend on the terms of the pension plan and the valuation method being used. Assumptions should be made regarding all factors having a material effect on the present value, excluding such factors which are matters of fact.

In many situations, accurate accrued benefit information may be available as at a date somewhat before or somewhat after a required valuation date. In such situations, the actuary may make reasonable projections to develop the benefit entitlements at the required valuation date. Where accurate benefit information requires a projection over a period of greater than one year, the actuary shall indicate in the report that current accurate data is unavailable, and as such, the quantifications presented in the report may be unsatisfactory.

Approximations may be used where the effect on the present value of using an approximation rather than a more detailed analysis is not material. By way of example, if the applicable economic assumption called for use of an annual rate of interest of 6% applied for the period January - April, inclusive, and then an annual rate of interest of 3% applied for the period May - December, inclusive, an acceptable approximation could be to utilize an annual rate of interest of 4% applied for the entire period January - December, inclusive.

a) Demographic Assumptions

Mortality - The mortality basis selected shall be one considered representative of the experience of pension plan members in general, modified if appropriate to reflect a medically determinable impaired state of health of the particular plan member. Tables commonly referred to as "population" mortality tables normally are not appropriate, whether in respect of a plan member, former plan member or a spouse.

The table should be a sex-distinct table. Unisex mortality is not permitted. Unless and until a subsequent table is adopted and becomes generally accepted, in which case the Institute will effect an appropriate announcement, acceptable mortality tables are the 1983 Group Annuity Mortality Tables (male or female, as applicable), as published on pages 880 and 881 of Volume XXXV of the *Transactions* of the Society of Actuaries.

No modification shall be applied to the table to reflect an impaired state of health merely because the member is a "smoker."

Marital Status - For all valuation purposes, except where any benefit entitlements are irrevocably vested in the (separated/divorced) spouse, the plan member should be viewed as single. Specifically, any entitlements that may be granted in respect of a future spouse shall be disregarded. Where any benefit entitlements are irrevocably vested in the (separated/divorced) spouse (as is often the case in respect of a pension in the course of payment), the actuary shall develop values that both

(i) include such benefit entitlements; and

(ii) exclude such benefit entitlements.

Values for (ii), above, apply to the member. The difference in values (i)-(ii), applies to the spouse of the plan member.

An assumption that a member is "single" is not a direction that death benefits provided by the pension plan or similar program be disregarded. Where the plan member can control a beneficiary appointment or otherwise realize some value for the death benefit entitlements (such as through a potential transfer of such value to any form of RRSP, etc., upon actual termination of employment), such death benefits normally would be valued, and may be shown separately.

Where a plan member is single and may elect an alternative form of benefit in lieu of a spousal pension, the value of the alternative form of benefit should be determined.

Retirement Age - The appropriate retirement age may depend on the retirement provisions of the particular pension plan. Generally, retirement age is viewed by the courts as a question of fact, not as an assumption that is the exclusive province of the actuary. If the question of fact is not clearly resolved before the actuary develops the report, values must be shown at least for the following potential retirement ages:

- the earliest age at which an immediate unreduced pension could be elected by the plan member, contingent only upon uninterrupted future service
- the earliest age at which an immediate unreduced "full" pension could be elected by the plan member, contingent only upon uninterrupted future service (a "full" pension is defined in this context, for example, as a 35-year service pension where plan terms restrict pension credits to 35 years of pensionable service)
- the earliest age at which an immediate unreduced pension could be elected by the plan member, if the member provided no further service beyond the valuation date
- the normal retirement age defined in the plan

Such an approach develops a set or range of values which are predicated upon determination of fact.

No consideration of future service is applicable where the plan member terminated employment prior to the valuation date (i.e., date of separation).

If the member is known to have terminated after a valuation date but before the date the report was prepared, the actuary should normally exclude any nonvested enhancements which the employee forfeited and disclose that such benefits have been excluded.

As the actuary does possess some expertise with respect to an appropriate retirement age or ages, if the issue of retirement age is not a known fact, the actuary may suggest an appropriate age or range of ages for purposes of narrowing a range of values, or replacing a range of values with a fair and reasonable single value.

Pension plans often provide reduced early retirement provisions that provide enhanced values if accessed. Whether an actuary must disclose the amount of enhanced values for reduced early retirement provisions is largely a matter of law (the report must disclose the existence of any such enhancements, in any event), and the actuary is expected to be familiar with such circumstances, or clearly disclose otherwise. By way of guidance, for reports under Ontario jurisdiction, any enhanced values afforded by reduced early retirement entitlements would not normally require quantification.

Disability - The possibility of future early retirement (and hence added value) as a result of a future disability essentially provides disability income, and, as such, this possibility should be disregarded. Where benefit accruals continue during disability, the possibility of future disability may not be relevant, and hence may be disregarded.

Salary Increases - Under the termination method, future salary increases are disregarded. Under the retirement method, assumed future salary increases should be consistent with applicable interest rates and other economic assumptions.

YMPE - Where accrued benefit entitlements are developed under an integrated concept (i.e., if the benefit provides x% of earnings up to the YMPE and y% of excess earnings), the YMPE shall be deemed to accrue on a *pro-rata* basis. By way of example, in 1992 the YMPE was $32,200; at March 31, 1992, one quarter of the YMPE has accrued, namely $8,050. To pursue this example, if plan terms call for a three-year average YMPE, such average will also reflect 100% of the 1991 and 1990 YMPEs, and 75% of the 1989 YMPE.

Alternatively, where terms of the pension plan provide that benefits related to average YMPE are based upon annual determination of the YMPE, a *pro-rata* application need not be followed.

Other Demographic Factors - Where the plan provides benefits in respect of other demographic factors, these should be taken into account, where the value is material, in a manner consistent with the method being used in the valuation. For example, if the number or age of children is relevant, it would be appropriate to reflect the actual status as it applies to the plan member at the valuation date.

b) Economic Assumptions

The set of economic assumptions to be used will vary based upon the valuation date of marriage breakdown (i.e., date of separation). Where the marriage breakdown valuation date is on or before August 31, 1993, the economic assumptions to be utilized in a report will reflect the assumptions specified in the 1988 exposure draft. Where the marriage breakdown is on or after September 1, 1993, the economic assumptions to be utilized in a report will be in accordance with the revised requirements discussed below. The economic assumptions to be utilized to develop a capitalized value at marriage shall be based upon the same external indices (determined as of the date of marriage) as used in the calculations done at the date of marriage breakdown. For greater certainty, this does not mandate identical economic assumptions at separation and at marriage; the applicable economic assumptions are time-sensitive, and only coincidently will be identical at marriage onset and marriage breakdown.

Sometimes, the date of marriage breakdown is in dispute, and the actuary is directed to prepare a report at two dates. If such dates straddle September 1, 1993, the actuary shall use economic assumptions applicable to a post September 1, 1993 marriage breakdown.

Economic assumptions vary depending on whether the pension is fully indexed, partially indexed or nonindexed. The reported value of a fully or partially indexed pension must be at least equal to the reported value applicable to a nonindexed pension in the same amount and having similar characteristics.

The following sets forth applicable economic assumptions for valuation dates of marriage breakdown at or before August 31, 1993:

- For nonindexed pensions, the interest rate for the first 15 years from the valuation date should be the month-end value of the nominal rate of interest on long-term Government of Canada bonds (CANSIM series B14013) in the second calendar month preceding the month in which the valuation date falls rounded to the next higher multiple of 0.50%. After the first 15 years, the interest rate should be 6.00%. Thus, if the valuation date is April 15, 19XX, and the February, 19XX month-end CANSIM Series B14013 rate is 8.20%, an initial valuation rate of 8.50% applies.
- For pensions which are fully indexed (i.e., where the pension increases by the same percentage as the Consumer Price Index) in either the deferral period and/or while in course of payment, the net rate of interest should be set initially as the difference, rounded up to the next multiple of 0.50%, between the interest rate applicable to nonindexed pensions (as described in the preceding paragraph) and

the rate of increase in the Consumer Price Index on an annualized basis, determined by dividing the average of the monthly Consumer Price Index for Canada (all items) for the month preceding the month in which the valuation date occurs, by the corresponding average Consumer Price Index for the same month one year earlier. The initial rate should apply for the first year and be reduced or increased in equal annual increments to a long-term net rate of 3.00% per year over a five-year period.

The following sets forth applicable economic assumptions for valuation dates of marriage breakdown at or after September 1, 1993:

- For nonindexed pensions, the interest rate for the first 15 years from the valuation date should be the month-end value of the nominal rate of interest on long-term Government of Canada bonds (CANSIM series B14013) in the second calendar month preceding the month in which the valuation date falls, adjusted as follows:

  i) add 0.50%;

  ii) translate the resulting nominal rate, which is based upon semiannual compounding, into an effective annual rate; and,

  iii) round to the nearest integral multiple of 0.25%.

  After the first 15 years, the rate should be 6.00%.

  Thus, if the valuation date is April 15, 19XX and the February, 19XX month-end CANSIM Series B14013 rate is 8.20%, the initial valuation interest rate is 9.00% (8.70% nominal first becomes 8.8892% effective, then becomes 9.00% upon rounding).

- For pensions which are fully indexed (i.e., where the pension increases by the same percentage as the Consumer Price Index) in both the deferral period and in course of payment, the net rate of interest for the first 15 years from the valuation date should be the month-end value of the real rate of interest on long-term Government of Canada real return bonds in the second calendar month preceding the month in which the valuation date falls, adjusted as follows:

  i) add 0.25%;

  ii) translate the resulting nominal rate, which is based upon semiannual compounding into an effective annual rate; and,

  iii) round to the nearest integral multiple of 0.25%.

  After the first 15 years, the rate should be 3.25%

  Real return bonds have a history which begins in late 1991. For periods which predate such history, any applicable month-end value is deemed to be 4.50%. Essentially, this means that the primary net valuation rate is 4.75% (rounded from 4.8064%) for a fully indexed pension.

c) Practices to Address Partial Indexing

For pensions which are partially indexed, the actuary should develop applicable net rates of interest that fall appropriately between the corresponding rates applicable to nonindexed and fully indexed pensions. The following examples illustrate this approach:

i) The plan provides indexing equal to “CPI-1%.”

   Apply interest rates for a fully indexed pension, plus 1% (but not in excess of the corresponding nonindexed rate).

ii) The plan provides indexing equal to “75% of CPI.”

Apply interest rates that are a weighted average of fully indexed rates (weighting 75%) and nonindexed rates (weighting 25%).

iii) The plan provides indexing equal to "75% of CPI, less 1%."

Apply interest rates that are a weighted average of fully indexed rates (weighting 75%) and nonindexed rates (weighting 25%), plus 1% (but not in excess of the corresponding nonindexed rate).

iv) The plan provides indexing under an "excess interest" concept, based upon net investment yield above X%.

Apply an interest rate of X%, subject to a maximum rate of interest equal to that for a nonindexed pension, and a minimum rate of interest equal to that for a fully indexed pension.

The net rate of interest developed using this approach should then be used without further rounding, regardless of whether the resulting rate is a multiple of 0.25%.

Where increases in benefits are related to increases in the average wage index, the actuary should assume that the average wage index will increase at rates that are one percentage point higher than the underlying rates of increase in the Consumer Price Index each year. The pension should then be valued using the interest rates applicable to partially or fully indexed pensions.

A deferred pension that is indexed only after the expiry of the deferral period should be valued using the interest rate applicable to a nonindexed pension during the deferral period and the interest rate applicable to the particular type of indexed pension after the commencement date of the pension.

A deferred pension that is indexed only during the deferral period should be valued using the interest rate applicable to the particular type of indexing in the deferral period, and the interest rate applicable to a nonindexed pension after the pension commences.

In cases where the plan does not provide contractual indexing, the actuary must attempt to ascertain whether the plan sponsor has established a regular and repeated practice of providing periodic pension increases on an *ad hoc* basis. Such practice shall be ascertained separately for pensions in the course of payment (in which case, the plan would be valued as wholly or partially indexed after the deferral period), and for deferred vested members prior to commencement of pension (in which case, the plan would be valued as wholly or partially indexed during the deferral period). Where such increases are known to have been provided in the past, the valuation must make provision for the continuation of this practice, unless there is significant evidence to the contrary (e.g., pension agreement excludes indexing where it has previously been included). The incremental value of such potential future adjustments may be reported separately from the present value which excludes allowance for such adjustments. The actuary should clearly disclose the assumption that is being made regarding the continuance of post-retirement adjustments and should preface the value of such adjustments with wording such as "If the plan sponsor's past practices were to continue, ..."

Where potential adjustments are not taken into account in the valuation (such as where past practice has not been regular or repeated, or where based upon past precedent, any future *ad hoc* increases appear unlikely), this fact should be disclosed in the actuary's report. In cases where the actuary is unable to determine whether or not such increases have been provided in the past, this fact should be clearly disclosed. In such cases, the actuary should develop values which provide the user of the report with assistance in the quantification of the added value.

If the retirement method is used in the valuation of a pension entitlement under a career average earnings or flat benefit plan, the actuary should attempt to ascertain whether accrued benefits have been increased on a regular basis in the past. Where such increases have been provided in the past, the valuation may make provision for the continuation of this practice, and the actuary's report should contain wording similar to that described above for *ad hoc* post-retirement adjustments. However, the incremental value of such potential future benefit increases should be reported separately from the present value excluding such increases. Where such potential future increases are not taken into account in the valuation, this fact should be disclosed in the actuary's report. In cases where the actuary is unable to determine whether or not such increases have been provided in the past, this fact should be disclosed.

5. Income Tax

Pensions differ from most other family assets in that they are available to a member only after payment of applicable federal and provincial income tax. The gross (pre-tax) value of a pension asset may require reduction to reflect income tax, in order to develop a net capitalized value for lump-sum equalization payment purposes.

In certain circumstances, where it is clear that the value of a member's pension will be settled by an offset against another similar pre-tax asset, such as the pension of the spouse of the member, then an adjustment for income tax may be ignored as a simplifying measure. In such circumstances, the actuary must clearly explain why a deduction for income tax has not been applied. In other circumstances, where it is clear that the value of a member's pension will be settled by a transfer of a similar pre-tax asset, such as the member's accumulated RRSP balance, then an adjustment for income tax may also be ignored as a simplifying measure. Again in such circumstances, the actuary must clearly explain why a deduction for income tax has not been applied.

If a deduction for income tax is developed by the actuary, then the applicable deduction shall be based upon the member's anticipated retirement income computed in "current" dollars, including accrued and projected future pension income, CPP and OAS entitlements. Other income anticipated may be reflected. Where reflected, the actuary shall disclose the amount of such anticipated other income. Upon projecting retirement income in current dollars, the actuary shall apply the deduction developed as the average tax rate paid at the most recent date for which relevant information is available by a similar single retired taxpayer with specified deductions, generally limited to age, personal and pension, unless applicable case law in the jurisdiction requires a different treatment. The actuary may also disclose the change in applicable deduction for other proximate levels of income. The actuary may or may not make allowances for the fact that tax brackets are only partially indexed, but should disclose the approach which has been followed.

When the actuary does not develop a deduction for income tax, the report must clearly so state.

6. Disclosure and Statement of Compliance

The actuary's report on the valuation shall include a description of the data, methodology and actuarial assumptions used in the valuation. The description should include at least the following:

- a summary of relevant personal data for the plan member whose pension entitlement is to be valued, of the amount of pension entitlement, or of the factors governing the amount of entitlement and of the amount of the individual's contributions to the plan with accumulated interest, if applicable. The actuary should identify the sources of this information;

- a brief summary of the provisions of the pension plan relevant to the valuation of the pension entitlement, together with a statement of the source of this information. The report should specifically indicate whether or not the actuary was provided with the governing plan documents and, if so, should state the date indicated on such documents;
- a description of the methodology employed in the valuation, including disclosure of any ancillary benefits which were not taken into account, and a description of any indexing provisions or practices which were taken into account;
- a statement of how income tax was taken into account in the valuation and a description of the methodology used;
- a description of all actuarial assumptions used in the valuation;
- disclosure of the name of the person who engaged the actuary and disclosure of any business relationship the actuary or the actuary's firm has with the pension plan sponsor, or the person.

The report on the valuation should include a statement that the present value has been computed in compliance with this standard of practice. If the actuary is unable to so state, the report must disclose those areas in which the valuation did not comply and reasons for noncompliance.

7. GUIDANCE

The Institute maintains a standing committee called "The Committee on the Division of Pension Benefits Upon Marriage Breakdown." The *Yearbook* lists membership and notes this committee's mandate as follows:

> "Responsible for identifying key issues, preparing guidance for the assistance of members, the courts and parties involved, and is to consider the appropriateness of preparing recommendations on this subject."

An actuary may contact the chairperson or vice-chairperson of the committee to seek guidance on the interpretation of this standard of practice.