

MEMORANDUM

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

From: Josephine Marks, Chair
Actuarial Standards Board

Gavin Benjamin, Chair
Designated Group

Date: July 20, 2020

Subject: **Final Standards – Amendments to Section 3500 – Minor Revision**

Deadline for comments: **September 30, 2020**

Document 220107

Introduction

These changes to the practice-specific standards for pension commuted values (Section 3500) have been approved for distribution by the Actuarial Standards Board (ASB) on July 16, 2020. Due process has been followed in the development of these standards.

The revised [standards](#), with an effective date of December 1, 2020, are attached at the end of this memo.

Background

Amendments to Section 3500 of the Practice-Specific Standards for Pension Plans (Pension Commuted Values) were released as Final Standards by the ASB on January 24, 2020, with an effective date of August 1, 2020, which was revised on April 6, 2020 to be no earlier than December 1, 2020.

The distribution of these amendments followed release of a notice of intent (NOI) on October 15, 2015, an exposure draft (ED) on July 20, 2017 and a revised ED on November 23, 2018, all in accordance with the ASB's due process.

Based on a review of the new Standards for the purpose of the preparation of educational guidance for actuarial practitioners, a clarifying amendment to the Standards was requested by the Pension Plan Financial Reporting Committee (PPFRC) in respect of the application of the Standards to determine the assumed pension commencement age for pension plans where Subsection 3570 does not apply.

As a result of this requested clarification, a minor revision is being proposed to Section 3500 of the Practice-Specific Standards as presented below.

Feedback from stakeholders

The ASB and the designated group (DG) have consulted with the PPFRC regarding the rationale and development of this revision to the Standards.

Since the ASB is of the opinion that this revision is minor in nature, an extensive consultation process is not being proposed. The ASB notes that the new standards will be effective December 1, 2020 and this revision will not be effective until that date, so that other stakeholders would have time to respond prior to the effective date if they wish to do so.

Any feedback on this revision may be directed to Josephine Marks (chair of ASB) at jmarks@eckler.ca or to Gavin Benjamin (chair of the Designated Group initially responsible for the development of these revised standards) at gavin.benjamin@willistowerswatson.com by **September 30, 2020**.

Revision to Standards

Paragraphs 3530.06 through 3530.06.3 of the new Standards address the assumed pension commencement age to be used in the determination of commuted values for pension plans where Subsection 3570 does not apply. The new Standards require that commuted values be calculated assuming that there is a 50% probability that a former member will commence their pension at the age which produces the highest commuted value (CV) and a 50% probability that a former member will commence their pension at the earliest unreduced retirement age.

When a former member's pension is affected by Income Tax Act (ITA) limits, the ITA maximum test is applied in some pension plan designs at the time that the former member commences their pension. Since the ITA limit is indexed annually, a literal interpretation of the standards could lead to the conclusion that the earliest unreduced age is age 71 (i.e., the largest lifetime pension could be at the latest permissible age to commence a pension under the ITA) which was not the intent of the revised standards. The suggested amendment also clarifies the determination of the assumed pension commencement age when the ITA maximum test applies at some pension commencement ages but not others.

Accordingly, the ASB proposes to revise the wording of Paragraph 3530.06.2 to read as follows:

- .06.2 For the purposes of paragraph 3530.06, where the amount of a member's deferred lifetime pension is projected to be affected at one or more retirement dates by limits imposed by the Income Tax Act (Canada) ("ITA limits"), 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~~ member's deferred lifetime pension either:*
- (a) is not affected by the ITA limits and the deferred lifetime pension is not reduced for early commencement; or*

(b) is affected by the ITA limits and the ITA limits at that age do not include a reduction for early commencement. ~~will be paid from the registered pension plan.~~

Effective date

This revision to the standards will take effect at the same date as the previously announced changes to Section 3500, namely December 1, 2020. The ASB is not currently envisioning a further change to this effective date. As was previously announced, early adoption of these revisions is permitted for TPAs that fall under the new Subsection 3570, as long as all revisions are adopted at the same time for a particular pension plan.

Members of the DG

The members of the DG responsible for the development of these revised standards are Gavin Benjamin (Chair), Ty Faulds, Conrad Ferguson, Dani Goraichy, Jamie Jocsak, José Legault, Tim McGorman, Mark Mervyn, and Catherine Robertson.

JM, GB