



Canadian Institute of Actuaries

Institut Canadien des Actuaire

MEMORANDUM

TO: All Members of the Canadian Institute of Actuaries
FROM: Peter F. Morse, Vice-President
DATE: October 12, 1993
SUBJECT: **Application of the Recommendations for the Computation of Transfer Values from Registered Pension Plans**

Four issues have been raised by members in connection with the application of the new Transfer Value Recommendations that were effective September 1, 1993.

1. Deciding which set of Recommendations to apply

In my August 3, 1993 Memorandum to all CIA members, I explained that the new recommendations should be used for all terminations of employment occurring on or after September 1, 1993. I indicated that transfer values in respect of terminations prior to that date should be determined in accordance with the 1988 recommendations, even if the calculation is carried out after August 31, 1993.

In my August 27, 1993 Memorandum, I clarified that the 1988 recommendations apply to plan membership terminations on or before August 31, 1993. Nevertheless, questions have arisen as to whether the old or the new recommendations should apply in the situation where plan membership terminated before September 1, 1993 (for example, when the pension plan was wound up), but the individual remains employed. The question is whether any amount that has yet to be transferred from the pension plan for an individual employee may now be recalculated using the new recommendations. The answer to this question lies in determining whether the effective date on which the right to elect a transfer (the "computation date" - in this example, this would usually be the wind-up date) is before or after September 1, 1993. If it is before that date, the 1988 recommendations apply; otherwise, the 1993 recommendations apply.

However, if the right to elect the transfer lapses and a new transfer option is subsequently offered on or after September 1, 1993, the 1993 recommendations apply to that second transfer value. For example, Québec legislation requires the opportunity for portability to be offered at least every five years to individuals who do not initially elect to take a transfer value of their pension upon termination of membership. In this situation, even though the individual may have terminated service or membership before September 1, 1993, the new recommendations should be followed when determining a subsequent transfer value that is offered on or after September 1, 1993.

2. Involvement of the actuary in determining larger transfer values and in extending unisex mortality assumptions

A question has arisen as to the circumstances in which an actuary may be involved in determining larger transfer values than those normally permitted by the new recommendations, or in applying a mortality table which does not vary with the sex of the member (unisex mortality) to pre-reform benefits or to benefits of members in jurisdictions which do not require unisex mortality to be used.

The new recommendations state in the introduction that they are “for the conduct of a member when engaged to compute, or recommend the basis to be used for the computation of, the transfer value of a pension The values determined in accordance with these recommendations do not represent the only method However, smaller transfer values are not permitted, but larger transfer values would be permitted provided that they were required by the plan terms or applicable legislation, or by a plan administrator who is empowered to specify the basis on which transfer values are to be determined.”

Paragraph A of Section 3 states: “While appropriate male and female rates would normally be applied, the actuary may calculate transfer values that do not vary according to the sex of the plan member where the actuary is required to do so....”

The particular question concerns a pension plan whose provisions do not empower the administrator in clear terms to specify the basis on which transfer values are to be determined. For example, the plan wording might be:

“The administrator shall use such actuarial factors as are determined by the actuary,” or

“The administrator shall use such actuarial factors as are recommended by the actuary,” or

“The administrator, on the advice of the actuary, shall adopt actuarial tables...”

In these situations there are concerns whether the actuary may use, or may recommend that the administrator use:

- a) larger transfer values, or
- b) transfer values that do not vary according to the sex of the plan member.

The interpretation of the plan rules is the responsibility of the administrator. In certain circumstances, the administrator may need to seek legal counsel as to the amount of latitude available to allow the use of larger transfer values, or to extend the use of unisex mortality beyond the legislated requirements. The Institute reminds you that actuaries may not give legal opinions.

With respect to extending the use of unisex mortality, the new recommendations set out a clear actuarial requirement. The only permissible situation in which a transfer value may be determined that is based on unisex mortality rates is where such mortality rates are required by legislation, by the plan terms or by the plan administrator. In other situations, the actuary may not recommend the use of such rates beyond those restricted circumstances, since it is inconsistent with appropriate risk classification.

Transition period

In situations where the plan provisions are worded along the lines mentioned above, a plan administrator who wishes to use larger transfer values or to extend the use of unisex mortality tables to non-unisex jurisdictions or to pre-reform benefits in certain jurisdictions may have to amend the pension

plan, retroactive to September 1, 1993, to incorporate appropriate wording. As a transitional measure, in a situation where a calculation is being made based on a plan amendment that reflects, or will reflect, such wording, but the plan has not yet been amended retroactively to permit such an approach, the actuary may rely in good faith on a written statement by the plan administrator or plan sponsor that the plan will be so amended, or that the plan administrator or sponsor has sought, or will seek, approval for such an amendment. The written statement should also state that the plan administrator or sponsor will act upon this amendment by prescribing larger transfer values or extended application of unisex mortality rates.

The actuary may rely on such a written statement until such time as the actuary discovers that the plan amendment will not be adopted, or is unlikely to be adopted. For all transfer value calculations that are performed after that time, it will no longer be permissible to use larger transfer values or to extend the use of unisex mortality tables to non-unisex jurisdictions or to pre-reform benefits in certain jurisdictions. However, in that situation there is no need to recalculate transfer values that covered terminations during the period from September 1, 1993, until that date.

In some situations, the plan amendment referred to above may not be able to be adopted for many months. In this case, the actuary should obtain a revised written statement from the plan administrator by no later than September 1, 1994, and that revised statement will be applicable for a maximum of one year. There will be no extension beyond September 1, 1995.

The plan rules should be interpreted in accordance with the written statement for the applicable period, and the actuary's computation (or recommendation as to the basis to be used for the computation) may then be based on this interpretation, subject to other considerations such as legal or legislative requirements. Note that one such legislative requirement that must be considered is found under the current terms of the Supplemental Pension Plans Act of Québec. The Act requires that the transfer value be based on generally accepted actuarial principles. As a result, when determining a transfer value that is governed by the Act, the plan administrator cannot require the use of unisex mortality rates if the resulting transfer value for a female member would be less than the value derived from the application of the recommendations using the mortality rates of the GAM83 table (female).

Unisex requirements under the 1988 Recommendations

Note that for transfer value calculations which are conducted using the 1988 recommendations, the interpretation of the unisex mortality requirements was set out in the May 8, 1992 letter from Mr. Paul McCrossan to Mr. Yves Slater at the Régie des rentes du Québec, which was included in a May 22, 1992 Memorandum to all members of the Institute. That letter applied a broader interpretation to the unisex mortality requirements than the requirements set out in the 1993 recommendations, in that it allowed unisex mortality rates to be used for a particular plan if "a jurisdiction with pension legislation requires the use of such mortality tables for at least some of the service of some of its members. In this instance, the actuary may use a mortality table undifferentiated as to sex:

- i) in respect of such service of those members to which the legislation applies; or
- ii) in respect of total service of those members whose benefits are governed by such legislation; or
- iii) in respect of all members of that particular plan."

This point may be relevant when performing calculations in jurisdictions that identify the 1988 recommendations in their regulations (currently, the federal jurisdiction, Ontario and New Brunswick), where members will need to prepare dual calculations to ensure that the transfer value generated by the 1993 recommendations is not less than that generated by the 1988 recommendations.

3. Interpretation of retirement age requirements

The last sentence of Paragraph A of Section 3 of the 1993 recommendations indicates that, in a certain situation, the retirement age should be determined based on the last paragraph of Section 2. In the context of the 1993 recommendations, a “paragraph” refers to an identified subsection of the recommendations. Accordingly, “last paragraph of Section 2” means all of the subsection headed “Reflect Full Benefit Entitlement.”

4. Interest rate for partially indexed pensions and pensions indexed with an excess interest approach

Paragraph B of Section 3 of the 1993 recommendations indicates that transfer values from partially indexed pensions are to be based on the assumed increase in the Consumer Price Index, which involves dividing (1 + the interest rate applicable for nonindexed pensions) by (1 + the interest rate applicable for fully indexed pensions). For this purpose, the interest rate applicable for nonindexed and fully indexed pensions is that obtained prior to rounding to the nearest multiple of 0.25%.

Similarly, where a pension is indexed according to an excess interest approach, the same paragraph states that the interest rate applicable to a nonindexed pension should be used as a proxy for the rate of return on the pension fund and on certain asset classes. For this purpose as well, the interest rate applicable to a nonindexed pension should be that obtained before rounding.

Rounding to the nearest multiple of 0.25% only occurs after these calculations and adjustments have been performed.

Any questions concerning this Memorandum should be directed to the chairperson of the Committee on Pension Plan Financial Reporting at his Yearbook address.

PFM