

Memorandum

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

From: Geoffrey I. Guy, Chairperson
Actuarial Standards Board

Date: March 26, 2008

Subject: **Notice of Intent to Revise the Standards for the Calculation of Pension Commuted Values and Capitalized Values upon Marriage Breakdown**

Comment deadline: **April 30, 2008**

Document 208020

Background

The Standards of Practice (SOP) for the calculation of the commuted values of pension benefits was scheduled to expire on February 1, 2008 but was extended by the Actuarial Standards Board to February 1, 2009. A corresponding Standard for the calculation of capitalized values of pension benefits upon marriage breakdown was adopted in 1993.

The Actuarial Standards Board has received extensive comment regarding the appropriateness of the current Standards by both pension practitioners and actuarial evidence practitioners. A question that remains unresolved is whether a common mortality/economic basis should apply to both pension and marriage breakdown calculations.

The Canadian Institute of Actuaries formed a task force in 2004 to determine if a common mortality/economic basis could be developed for the calculation of pension commuted values and capitalized values upon marriage breakdown and if not, to recommend distinct bases that were nevertheless consistent. A [report](#) from this task force is being published at the same time as this notice of intent. The recommendations from the task force will be considered in developing the exposure drafts, but are not to be regarded as a blueprint for the final standards. As such specific comments on the task force report are not requested at this time, but members and other interested parties may wish to comment on it when the proposed Standards are published in June.

Action Plan

The Actuarial Standards Board intends to publish two exposure drafts in June 2008 for the revision of the prescribed bases for the calculation of values for pensions. One of

these will be applicable to commuted value calculations (Section 3800) (i.e., transfer values) and the second will apply to marriage breakdown calculations (Section 4300). During the period following publication there will be ample opportunity to determine if these two Standards should incorporate a common mortality/economic basis but this decision will not be made before the exposure drafts are published.

The exposure drafts will take into consideration the work of the task force, and also input from the practice committees in the two practice areas. It is expected that changes to the current Standards will be recommended in the following areas:

- Mortality: the mortality assumptions will be updated.
- Long-Term Interest and Inflation Assumptions: the economic basis reflected in the current commuted value Standard is almost entirely dependent on market conditions at the time of calculation, while that reflected in the marriage breakdown basis is much less so, and as a result produces less volatile results. The Actuarial Standards Board will review the pros and cons of fidelity to market conditions versus volatility, among other considerations, in developing the exposure drafts. There will be ample opportunity for interested parties to provide comments to the Actuarial Standards Board during the comment period following publication of the exposure drafts, but parties may make comments earlier if they wish to do so.
- The Actuarial Standards Board does not propose to make any material changes to existing Standards, sections 3800 and 4300 other than with respect to the mortality and economic bases.

The Actuarial Standards Board will solicit input from members and other stakeholders regarding the new standards and, will be considering, amongst other things, the following topics:

- Whether there should be a common basis for the calculation of commuted values in pension plan transfer value calculation and marriage breakdown calculations.
- The recommendations of the task force report regarding mortality and interest rates. Specifically:
 - the determination of a three-tiered system for interest rates with a (stable) long term rate that does not vary with market conditions;
 - the amount of the margins taken over the benchmark market rates; and
 - a mortality basis with mortality improvement projected to 2020.
- A commuted value that varies with prevailing interest rates is reflective of current financial reporting trends but are there reasons to prefer a more stable value given the nature of pension plan benefits?
- The preferred effective date (currently targeted as February 1, 2009) assuming a final Actuarial Standards Board decision in October 2008.

Comments from Members and other interested parties will be actively solicited. It is expected that, in addition to the usual form of written input, hearings will be held during the summer at which interested parties can make presentations regarding the exposure drafts.

It is the responsibility of the Actuarial Standards Board to make the final decisions regarding the new Standards. It expects to make final decisions regarding the new

Standard(s) in September or October 2008 and will set a date for implementation of the new Standard(s) at that time.

To ensure that there is an orderly process and that the various parties' perspectives are fully considered, a project manager has been appointed. Rob Smithen has agreed to fill this role and will report directly to the Actuarial Standards Board. He will be consulting actively with the respective practice areas and the task force.

Parties wishing to comment on this notice of intent should direct those comments to Rob Smithen at rob.smithen@actuaries.ca by April 30, 2008.

GIG