

Memorandum

To: All Pension Actuaries
From: Michael Banks, Chairperson
 Committee on Pension Plan Financial Reporting
Date: December 18, 2009
Subject: **Guidance for Assumptions for Hypothetical Wind-Up and Solvency Valuations Update – December 2009**

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The most recent guidance from the Committee on Pension Plan Financial Reporting (PPFRC) regarding assumptions for hypothetical wind-up and solvency valuations was provided in a memorandum dated October 5, 2009 (www.actuaries.ca/members/publications/2009/Annuity_Guidance_Memo_e.pdf) and was subsequently formalized in an educational note dated November 6, 2009. The original educational note can be accessed by using the following link: www.actuaries.ca/members/publications/2009/209109e.pdf.

The guidance contained in the October Memo was based primarily on quotes provided by six insurance companies on illustrative blocks of group annuity business using pricing conditions as at July 31, 2009. That guidance was supported by data from a limited number of quotations for actual annuity purchases available to PPFRC.

As indicated in the October Memo, in an effort to continue to monitor group annuity pricing, the PPFRC obtained illustrative quotes on a similar basis to those obtained at July 31, 2009, but based on pricing conditions as at September 30, 2009. The illustrative non-indexed quotations at July 31 and September 30 may be summarized, as follows:

AVERAGE OF THE THREE MOST COMPETITIVE BLOCKS				
	Large Block		Small Block	
	31/07/09	30/09/09	31/07/09	30/09/09
Retirees				
• Discount rate	4.51%	4.06%	4.54%	4.18%
• Spread over CANSIM V39062	+ 0.50%	+ 0.19%	+ 0.53%	+ 0.31%
Deferred vesteds				
• Discount rate	4.54%	4.10%	4.46%	4.09%
• Spread over CANSIM V39062	+ 0.53%	+ 0.23%	+ 0.45%	+ 0.22%

For the retiree group of the large non-indexed illustrative block of business, there was a decrease in the excess (spread) of the average of the discount rates for the insurers that provided the three most competitive quotes, in conjunction with the UP94@2015 mortality tables, over the yield on Government of Canada (GoC) long-term bonds (series V39062), from 50 basis points (bps) as at July 31, 2009 to 19 bps at September 30, 2009. For other groups, the indicated spread has fallen between approximately 20 and 30 bps between July 31 and September 30, 2009.

The illustrative quotes as at September 30, 2009 suggest that the spread between non-indexed group annuity purchase discount rates and the yields on GoC long-term bonds may have narrowed since July 31, 2009. However, the PPFRC has not been able to obtain data on a sufficient number of recent actual group annuity purchases to validate the discount rates obtained from the September 30, 2009 illustrative quotes for consistency.

Considering the lack of actual purchase data and the high volatility in group annuity purchase discount rates over the past 18 months, the PPFRC has decided that, on balance, there is not sufficient evidence at this time to warrant changing the guidance provided in the October Memo (which was subsequently formalized in the November 6, 2009 educational note).