

## Memorandum

**To:** All Fellows, Affiliates, Associates and Correspondents of the Canadian Institute of Actuaries and Other Interested Parties

**From:** Charles C. McLeod, Chairperson  
Actuarial Standards Board  
Ellen Whelan, Chairperson  
Designated Group

**Date:** June 28, 2010

**Subject:** **Notice of Intent – Amendment to the Practice-Specific Standards for Post-Employment Benefit Plans**

**Comment Deadline: August 30, 2010**

*Document 210035*

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### **BACKGROUND**

The Actuarial Standards Board (ASB) and the Canadian Institute of Actuaries' (CIA) Committee on Post-Employment Benefit Plans believe it would be in the interest of the public and the profession to review and revise the Practice-Specific Standards for Post-Employment Benefit Plans (Part 6000), for the following reasons:

1. The rate of growth of the costs of these benefit plans continues to outpace general price inflation and they are generally one of the fastest-growing line items in an employer's financial statements. Depending on the plan, the costs can also be very volatile.
2. The introduction of IFRS financial reporting to plan sponsors in Canada will increase the concern for the growing costs and volatility.
3. There are key assumptions for the valuations of such benefit plans for which there is no consistent actuarial practice or published information available. Consequently the results may vary substantially from one practitioner to another.
4. The ASB published revised Practice-Specific Standards for Pension Plans (Part 3000). Some changes made to Part 3000 should perhaps also be made to Part 6000.
5. The current Practice-Specific Standards for Post-Employment Benefit Plans were issued in May 2005. Since then, the only changes have been technical wording changes in April 2009.

## **SUMMARY OF PROPOSED CHANGES AND DESIRED OUTCOMES**

The desired outcome would be to have updated Practice-Specific Standards for Post-Employment Benefit Plans (Part 6000) which align with the revised Practice-Specific Standards for Pension Plans (Part 3000). The updated Standards of Practice would also clarify the scope between which plans are covered under the Part 6000 versus the other practice-specific Standards of Practice such as that for pension plans (Part 3000) or public personal injury compensation plans (Part 5000) as well as cover any expanded scope of benefits due to the introduction of IFRS reporting in Canada.

Specific changes to Part 6000 that will be considered by the ASB are:

1. Updated and potentially expanded Scope section, section 6100;
2. Expanded discussion on the Assumption with Respect to Claims Trend Rate (paragraph 6300.08) including a breakdown of such assumptions into short-term and long-term components. In combination with a trend rate study being conducted by the CIA, the intent is to provide guidance in the Standards to narrow the rate of accepted actuarial practice with respect to trend rate assumptions;
3. Expanded section 6400 (Funding) to include outlines of the circumstances of the work, actuarial cost methods and asset valuation methods, and selection of discount rates;
4. Clarification in section 6500 (Accounting) that the users of the financial statements select the methods and assumptions and the actuary uses these; and
5. Expanded and updated section 6600 (Reporting: External User Report) to include guidance covered by the revised pension standard (Part 3000), including items such as benefit commitments, subsequent events, tests applied to data, limitations of tests on data, defining terms of appropriate engagements, and the procedure for testing discount rate sensitivity.

## **TIMELINE**

The Actuarial Standards Board hopes to publish an exposure draft in the first quarter of 2011. Final Standards of Practice are expected to be effective in 2012.

## **YOUR FEEDBACK**

The ASB is soliciting feedback on this notice of intent from members of the CIA and other stakeholders. Comments on the proposed changes are invited **by August 30, 2010**. Please send them, preferably in an electronic format, to Ellen Whelan at [ellen.whelan@mercercor.com](mailto:ellen.whelan@mercercor.com), with a copy to Chris Fievoli at [Chris.Fievoli@actuaries.ca](mailto:Chris.Fievoli@actuaries.ca). The only forum planned for submitting comments regarding this notice of intent is the receipt of written comments at the above e-mail addresses.

Feedback is particularly invited on the following issue:

1. Are the identified changes appropriate?
2. Are there other changes to Part 6000 of the Standards of Practice that you think should be made?
3. How much guidance on health care trend rates and cost increases by age should be provided in the Standards of Practice as opposed to educational notes?

It is the responsibility of the Actuarial Standards Board to make final decisions regarding the revised Standards of Practice. During the period following publication of this notice of intent and during the period following the exposure draft, there will be opportunity to comment and these comments will be considered by the Designated Group. The Actuarial Standards Board hopes to make final decisions regarding these revisions in 2011/2012.

The Actuarial Standards Board has created a Designated Group chaired by Ellen Whelan that will be responsible for developing these Standards of Practice.

CCM, EW