



February 15, 2011

Mr. Gavin Benjamin
Chair, Pension Plan Financial Reporting Committee
Canadian Institute of Actuaries
800-150 Metcalfe Street
Ottawa, Ontario K2P 1P1

Dear Mr. Benjamin:

On behalf of the Canadian Association of Pension Supervisory Authorities (CAPSA), I am writing to provide comments on solvency valuations for retired members. Our comments are based on the Appendix to the Educational Note issued in April 2010 and could also be relevant in the context of potential revisions to Standards of Practice affecting this issue.

The Appendix identifies \$500 million as the level at which you believe it would be difficult to effect an annuity purchase. We suggest it would be helpful to review this amount periodically and describe the basis for this amount to the extent possible.

The Appendix suggests that an actuary could assume alternative settlement methods that might include mandatory cash payments to beneficiaries. While specific pension legislation may permit an alternative settlement method in an actual wind-up, we are concerned with allowing actuaries to make such assumptions in a solvency valuation. Our expectation is that an alternative settlement method should not result in a gain to the plan upon wind-up, relative to a valuation made without the alternative settlement method. Because we are concerned that such a method could be selected for the purpose of reducing solvency liabilities, we believe that it should not be used in solvency valuations.

We note that the replicating portfolio approach described in the Appendix may not be acceptable in all jurisdictions. Where it is used, we suggest that it would be appropriate to add the costs associated with liquidating the existing assets of the plan as a factor that should be considered.

The Appendix also suggests that it could be appropriate for an actuary to assume that a plan that includes indexation of benefits based on the Consumer Price Index (CPI) would be amended on wind-up to substitute a fixed annual percentage of indexation for the CPI indexation. Our concerns with this are similar to the concerns expressed on alternative settlement methods. Further, it does not seem appropriate to assume that such a plan amendment would be made, especially where the solvency scenario contemplates that benefits would not be settled by purchasing annuities.



Finally, we have observed different practices with respect to rounding the discount rates recommended in annual Educational notes. We are concerned that some actuaries use rounding selectively and we suggest you consider issuing more precise guidance in this regard in future Educational Notes.

We understand that the ASB is setting up a Task Force to consider potential adjustments to Standards of Practice with respect to solvency valuations for retired members. We trust that these comments will be helpful in this context.

Yours truly,

Mario Marchand
Chair,
The Canadian Association of Pension Supervisory Authorities (CAPSA)

c.c. David Pelletier, Chair, Actuarial Standards Board
Jean-Claude Primeau, Chair, CAPSA Actuarial Standards Committee
Members of CAPSA