

April 7, 2010

Mr. Charles McLeod
Chair
Actuarial Standards Board
800-150 Metcalfe Street
Ottawa, Ontario K2P 1P1

Dear Mr. McLeod:

On behalf of the Canadian Association of Pension Supervisory Authorities (CAPSA), I am writing to outline comments and concerns on the Revised Exposure Draft on Changes to the Standards of Practice – Practice-Specific Standards for Pension Plans released on February 16, 2010. As you know, CAPSA represents all Canadian pension regulatory authorities, including the Canada Revenue Agency.

You received a letter from CAPSA dated November 30, 2009, which provided our comments on the previous Exposure Draft. This letter includes comments on how you dealt with the points made in our November 30 letter as well as comments on issues that have emerged in the Revised Exposure Draft. It also takes into consideration the explanations provided by representatives of the Canadian Institute of Actuaries (CIA) and the Actuarial Standards Board (ASB) during our CAPSA meeting on March 23, 2010.

Going Concern Valuations and Margins for Adverse Deviations

We are pleased that you have made adjustments to the proposed Standards to reflect our concern with the lack of reference to regulator guidance in the Pension Funding Standards. While your proposal that actuaries should be familiar with regulator guidance represents an improvement over the previous Exposure Draft, we would have preferred that the Standards include a requirement for actuaries to take regulator guidance into account in their work.

With respect to margins for going concern valuations, the representatives of the CIA and the ASB expressed the view, during our last CAPSA meeting, that such margins are a matter of social policy and should not be mandated by standards of practice. On the other hand, pension regulators represented by CAPSA, in keeping with their mandate, feel that adequate margins are an essential part of going concern valuations. Therefore, we feel that, compared to the current standards of practice, this change is not in the public interest.

Forecast Actuarial Method

In our letter of November 30, 2009, we expressed serious concerns with the proposed addition of the forecast method as an acceptable going concern method for registered pension plans.

While the ASB did not change its proposal in this regard, CAPSA continues to have very strong reservations on the forecast method for the reasons outlined in our November 30 letter and we urge the ASB to reconsider its position.

Gain and Loss Reconciliation

We are pleased that the Revised Exposure Draft proposes to make the going concern gain and loss reconciliation mandatory. We suggested in our November 30 letter that a simplified solvency reconciliation is of sufficient value to be part of actuarial standards. The ASB chose not to retain this suggestion mainly for cost considerations but we continue to believe that a simplified solvency reconciliation would be useful to users. In particular, it would show how actual changes in the major factors have affected the solvency position. This would supplement the disclosure of sensitivity impacts since it is based on actual changes instead of hypothetical ones. We also feel that the additional cost involved would not be significant with a simplified approach.

Designated Plans

While changes were made to clarify the requirements with respect to designated plans in response to our concerns, we believe it would be beneficial to include a further clarification. To this end, we propose an adjustment in wording to the first part of paragraphs 3230.03 and 3230.05, as follows: "If the plan is a "designated plan" as that term is defined in the Income tax Regulations (Canada) and one of the purposes of the going concern valuation ..."

Limitations of Data Validation

The Revised Exposure Draft now includes a possibility for the actuary to limit his or her role in the review of membership data compared to what current Standards provide.

The experience of pension regulators suggests that there are many instances where the quality of plan membership data is less than desirable. We value the role of actuaries in the rigorous examination of data and believe it can contribute significantly to improving

its quality. We are concerned that this proposed change, in particular the suggestion included in paragraph 3260.11 of reliance on the certification of the plan administrator as to the quality of data, may lead to an increase in data problems in actuarial valuations and to instances of avoiding a qualified opinion on data where such an opinion would have otherwise been justified.

While this interpretation may not be consistent with your intentions, we have serious concerns with the proposed change and submit that it should be removed or at least much more carefully worded.

Exclusion of Plan Benefits

Paragraph 3260.13 includes added examples of significant terms of an appropriate engagement. We noted with concern the addition in this list of the exclusion of certain benefits for purposes of a valuation.

While pension legislation may permit or mandate in some instances the exclusion of a particular benefit from actuarial valuations, we believe there would not be justification for excluding benefits in other instances and that this item should be clarified to specify that benefit exclusions are appropriate only if permitted by law.

Based on the exchange we had on March 23, this interpretation may not be consistent with your intentions. We submit that it should be more carefully worded. For your information, CAPSA has produced a list of exclusions permitted by each jurisdiction, which is attached for reference.

Hypothetical Wind-up Maximum Cost Scenario

Paragraph 3260.19 of the Revised Exposure Draft proposes that it would be acceptable to exclude future member earnings in a solvency valuation done under a scenario of plan termination with members' employment continuing.

Under the Standards, actuaries can use solvency scenarios other than the termination of the plan due to employer bankruptcy. If an actuary selects a scenario of voluntary plan termination with members continuing employment, then the calculation of the solvency liability should follow the terms of the plan as they would apply in this situation. In a final average earnings plan, plan terms could reflect recognition of earnings beyond the termination of the plan, and we believe it would be inappropriate for the Standards to preclude proper application of the plan terms.

We also note that paragraph 3330.17, dealing with wind-up valuations, states that, if future benefits depend on continued employment, the actuary would consider reflecting

contingencies such as future salary increases. It appears to us that the intent of these two paragraphs would be inconsistent.

We are concerned that this new paragraph could result in underestimating plan obligations in solvency valuations and we believe it should be removed.

Effect of Actuarial Cost Methods on Security of Benefits

The Revised Exposure Draft proposes to delete current paragraph 3260.18, which requires actuarial reports to include a description of the effect of the actuarial cost method on the security of benefits and the pattern of future contributions. Since the vast majority of pension plans are funded using the unit credit or projected unit credit method, a typical description of these methods would mention that annual contribution requirements are likely to increase as the plan membership becomes more mature.

While this does not affect the actuary's funding recommendations, we think this type of disclosure has value for the users of the report to better understand the characteristics of the actuarial cost method used for their plan, pertaining to funding patterns and we believe that the requirement for this disclosure be retained.

Annuity Contracts

Paragraph 3100.02 of the Revised Exposure Draft states that the Standards of Practice in sections 3200 to 3400 do not apply to a pension plan whose benefits are guaranteed by a life insurer. However, we believe that plans that have purchased annuities in respect of a portion of the plan's benefits remain responsible for these benefits in case of insurance company failure. While the inclusion of the value of annuity contracts will not affect the funding of the plan, we feel it is sufficiently important for users to be aware of these contracts and their value.

We are also aware that new types of annuity contracts are being developed that contain terms of revocability and that it may not be appropriate to exclude such an annuity contract from the assets and liabilities of a plan.

Therefore, we believe that the value of annuity contracts should be disclosed in the actuarial report and that the ASB should consider adding wording to this effect in the Standards.

We trust that you will give due consideration to these comments expressed on behalf of all Canadian pension regulators, in order to ensure that the Standards serve the public interest.

Canadian
Association of
Pension
Supervisory
Authorities

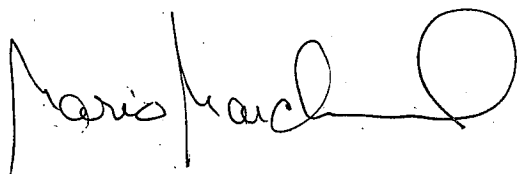
CAPSA

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Canadienne des
Organismes de contrôle des
Régimes de retraite

ACOR

If you wish to discuss the contents of this letter, you may contact the Chair of the CAPSA Actuarial Standards Committee, Jean-Claude Primeau at (613) 990-8136 or jean-claude.primeau@osfi-bsif.gc.ca, or the undersigned.

Yours truly,



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

Cc: John Solursh, Chair, Actuarial Standards Oversight Council
Jean-Claude Primeau, Chair, CAPSA Actuarial Standards Committee

EXCLUDABLE BENEFITS BY JURISDICTION

| Jurisdiction | "Excludable Benefits" | Valuation | Reference | Notes |
|------------------|---|---------------------------|--|--|
| Alberta | None | | | All benefits are required to be funded. |
| British Columbia | None | | | All benefits are required to be funded |
| Manitoba | None | | | All benefits are required to be funded |
| New Brunswick | None | | | All benefits are required to be funded. |
| Newfoundland | Escalated adjustments | Going Concern or Solvency | s. 6(5) of the PBA Regulations | Escalated adjustments are defined in section 2(1)(g) of the Regulations as follows: "escalated adjustment" means an adjustment made after the cessation of membership of a member of a pension plan to his or her pension benefit or deferred pension benefit, which adjustment is not capable of being determined with certainty at the time the plan, or an amendment to that plan, is submitted for registration because the adjustment is related to the investment earnings of the pension fund or to future changes in a general wage or price index; |
| Nova Scotia | Indexation | Going Concern or Solvency | Regulation 12((1)(i), 13(2)(e) and 16(1)(a) | |
| | Grow-in benefits | Solvency | s. 79 of the Pension Benefits Act | |
| Ontario | 1. Escalated Adjustments | Going Concern | s. 11 | Payment of an escalated adjustment that has not been prefunded is deemed to be part of normal cost " <u>escalated adjustment</u> " means an adjustment that is made to a pension or a deferred pension of a former member of a pension plan where, (a) the adjustment is not capable of being determined with certainty at the time the plan or a relevant amendment to the plan is submitted for registration because the adjustment is related to the investment earnings of the pension fund or to future changes in a general wage or price index, or (b) the adjustment is an increase in the pension or deferred pension at a fixed annual percentage rate specified in the plan; (" <u>rajustement indexé</u> ") |
| | 2. a) Escalated Adjustment | Solvency | Reg. s. 1 (2) | |
| | b) Plant closure benefits, if election to exclude was made | Solvency | Liabilities in clauses (a) to (h) of the definition of "solvency liabilities" are excluded from the calculation of the solvency liabilities. | " <u>plant closure benefit</u> " means a pension benefit or ancillary benefit payable only if all or a significant portion of the business carried on by the employer at a specific location is discontinued, whether or not the pension plan is wound up in whole or in part; (" <u>prestation de fermeture d'entreprise</u> ") |
| | c) Permanent Layoff Benefits, if election to exclude was made | Solvency | | " <u>permanent layoff benefit</u> " means a pension benefit or ancillary benefit for which the eligibility requirements include permanent layoff, whether or not the benefit requires the consent of the employer or, in the case of a jointly sponsored pension plan, the consent of the employer or the administrator; (" <u>prestation de mise à pied permanente</u> ") |
| | d) Special Allowances for which a member has not met all age and service eligibility requirements | Solvency | " <u>special allowance</u> " means a bridging benefit that is adjusted according to the income of the former member resulting from employment of the former member subsequent to termination; (" <u>allocation spéciale</u> ") | |
| | e) Consent Benefits for which a member has not met all eligibility requirements | Solvency | " <u>consent benefit</u> " means an ancillary benefit, other than a plant closure benefit or a permanent layoff benefit, the eligibility requirements for which include the consent of an employer or, in the case of a jointly sponsored pension plan, the consent of the employer or the administrator; (" <u>prestation assujettie à un consentement</u> ") | |
| | f) Prospective Benefit Increases | Solvency | " <u>prospective benefit increase</u> " means an increase to a pension | |

| | | | | |
|--------------|--|----------|--|--|
| | not yet in effect | | | benefit or ancillary benefit set out in the pension plan or agreed to by the parties to a collective agreement, but not yet in effect; ("augmentation future des prestations") |
| | g) Early retirement window benefit value for a member who is eligible to elect, but has not yet elected | Solvency | | "early retirement window benefit value" means the amount by which, (a) the portion of the solvency liabilities of a plan that relates to all the pension and ancillary benefits to which a member is entitled if the member elects early retirement under a temporary program offered for a maximum period of twelve months, exceeds, (b) the portion of the solvency liabilities of a plan that relates to all the pension and ancillary benefits to which the member would be entitled in the absence of the temporary program; ("valeur des prestations pendant la période d'admissibilité à la retraite anticipée") |
| | h) Pension benefits and ancillary benefits payable under a qualifying annuity contract purchased before Jan. 1, 1993 | Solvency | | "qualifying annuity contract" means an annuity contract for the purpose of providing benefits under a plan, with the following characteristics: 1. The contract does not contain a provision allowing for the redistribution of benefits on a wind up or partial wind up of the pension plan. 2. The contract was entered into before the 1st day of January, 1988. 3. The contract was issued by an insurance company or under the <i>Government Annuities Act</i> (Canada). 4. The benefits provided under the contract consist only of pensions and pension benefits purchased before the 1st day of January, 1993; ("contrat de rente admissible") |
| OSFI | None | | | All benefits are required to be funded. |
| Quebec | None | | | All benefits provided in a pension plan are required to be funded. For a pension plan supervised outside Quebec, a specific regulation may be adopted to fund PFAD for Quebec members (section 6 (2) b) of the Agreement). |
| Saskatchewan | None | | | All benefits are required to be funded. |