

December 13, 2018

CAPSA Secretariat
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Re: Willis Towers Watson Submission on *Guidance: Solvency or hypothetical wind-up liabilities based on actual life insurance company annuity quotation*

Dear Sir or Madam,

Willis Towers Watson welcomes the opportunity to comment on the Canadian Association of Pension Supervisory Authorities' ("CAPSA") draft guidance entitled *Guidance: Solvency or hypothetical wind-up liabilities based on actual life insurance company annuity quotation* ("Draft Guidance"). Willis Towers Watson designs and delivers solutions that manage risk, optimize benefits, cultivate talent and expand the power of capital to protect and strengthen institutions and individuals. Willis Towers Watson employs more than 40,000 colleagues on a worldwide basis, with approximately 450 being engaged in providing services to sponsors of Canadian pension plans. The undersigned have prepared our response with input from others in the company.

General Comment

The Canadian Institute of Actuaries ("CIA") establishes standards of practice that apply to actuarial work in Canada. The CIA also publishes Educational Notes which are intended to illustrate the application of standards of practice and to assist actuaries in applying standards of practice in respect of specific matters. The CIA's Committee on Pension Plan Financial Reporting publishes an annual Educational Note that provides guidance on the assumptions for solvency and hypothetical wind-up valuations, as well as quarterly Educational Note Supplements. The most recent Educational Note Supplement, with an effective date of September 30, 2018, can be found [here](#).

Given the actuarial nature of the contents of the Draft Guidance, in our view it would be preferable for this type of guidance to be provided through a CIA Educational Note, such as the Educational Note referenced above. This would ensure that the guidance is consistent with actuarial standards of practice and would provide greater flexibility to revise the guidance in the future, in the event that the guidance becomes outdated. If not done so already, we suggest that CAPSA discuss with the appropriate representatives of the CIA the feasibility of providing, in an Educational Note, guidance on reflecting an actual life insurance company annuity quotation in solvency and hypothetical wind-up valuations.

Specific Comments

The following are a couple of specific comments on the Draft Guidance:

1. On page 1, the Draft Guidance states the following:

“Where the premium amount in the quotation is higher than the solvency or hypothetical wind-up liabilities produced by CIA guidance, it is expected that the quotation would be considered in determining the pension plan’s liabilities.”

Although not stated in the Draft Guidance, presumably it will also be expected that the quotation would be considered in determining the pension plan’s liabilities when the premium amount is lower than the solvency or hypothetical wind-up liabilities produced by CIA guidance. The guidance should be clear in this regard.

2. In the information to be provided in valuation reports, the Draft Guidance includes *“the actuary’s certification that circumstances and conditions are materially the same at the quotation date and valuation date should be provided if the dates are different”*. We note that insurance companies consider their group annuity pricing assumptions to be proprietary, and as a result do not disclose these assumptions publicly. Also, conditions in the group annuity market can change rapidly. Given the absence of detailed and up-to-date information on insurer group annuity pricing and the fact that there will be situations in which conditions have changed between the valuation date and quotation date, in our view it is not reasonable to expect actuaries to certify that conditions are materially the same.

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We greatly appreciate the opportunity to comment on the Draft Guidance. Please do not hesitate to contact us if you have any questions.

Sincerely,



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