



December 13, 2018

CAPSA Secretariat  
16th Floor, 5160 Yonge Street  
Toronto ON M2N 6L9  
Via email: capsa-acor@fscs.gov.on.ca

**To Whom It May Concern:**

**Re: CAPSA Consultation on annuity quotations for solvency valuations**

Thank you for the opportunity to provide our comments in respect to this consultation.

The Association of Canadian Pension Management (ACPM) is the leading advocate for plan sponsors and administrators in the pursuit of a balanced, effective and sustainable retirement income system in Canada. We represent plan sponsors, administrators, trustees and service providers and our membership represents over 400 companies and retirement income plans that cover more than 3 million plan members.

Some general points for consideration:

- We agree that pension supervisory authorities allow the use of annuity quotations rather than accepting only the Canadian Institute of Actuaries (CIA) annuity proxy.
- The CIA annuity proxy represents a reasonable approach but still see it as an imperfect representation of the true cost at the valuation date.
- A bona fide annuity quotation should be considered as good, if not better, than the CIA annuity proxy.
- Any other alternative settlement methods should be more readily accepted by pension supervisory authorities and we would encourage CAPSA to consider developing guidelines in this regard.

We are inclined to think that certain pension supervisory authorities may have some discomfort in reviewing information on annuity quotations presented in certain solvency valuation reports, so we assume the primary purpose of the present consultation is to improve transparency. However, if the present consultation is motivated by some other reason, we would like to be informed so that our comments might better address such reasons.

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The consultation document mentions (near the bottom of page 1) that a higher annuity quotation should be considered in determining the plan's liabilities; we would expect that the proposed guidelines would apply whether the quotation is higher or lower and that an annuity quotation is optional and not mandatory in any case.

We understand that the annuity quotation date may not be, or even cannot be, the same as the valuation date and we agree that in such a case, some adjustment is necessary to provide a result as of the valuation date. We find the adjustment methodology presented at the end of the consultation document to be reasonable, with the understanding that this would apply only to that portion of pension benefits that is included in the annuity quotation. For instance, if an annuity quotation is obtained as of March 15<sup>th</sup> for pension payments due on or after May 1<sup>st</sup> for those pensioners and surviving spouses that are still alive as of May 1<sup>st</sup>, then the solvency liabilities in a valuation as of December 31<sup>st</sup> would reflect the adjusted quoted premium only for those pension benefits, while valuing separately the other pension benefits using the CIA proxy.

It is not clear to us whether the consultation document would allow this approach; however, we believe that it should be permissible to use an annuity quotation for any portion of the pension benefits assumed to be insured for the solvency valuation. This is clearly the case for pension amounts payable after the valuation date but before the quotation date, but it should also be possible to apply different treatments to different groups of members or benefits.

For instance, a quotation might include only:

- pensions already in pay;
- pensions up to a certain monthly amount (such as the Assuris limit);
- pensions paid after a certain age;
- pensions payable for life (thus excluding bridge benefits or guarantee balances);
- pensions payable under certain forms (such as excluding joint-survivor options);
- pensions paid to a sub-group of participants (such as members who were employed at a certain facility or in a certain category of work);
- the non-indexed portion of indexed pensions.

In such cases, the remaining pension benefits could be valued using the CIA proxy. Also, the consultation document mentions (near the top and bottom of page 2) that an annuity quote may not be acceptable if circumstances have changed significantly and that the actuary needs to certify that circumstances and conditions are materially the same at the quotation date and valuation. We find this requirement to be very ambiguous and thus find it difficult to comment on it. We would prefer that such a requirement be removed or else greatly clarified and limited only to extreme situations.

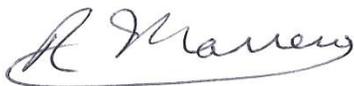
It appears that the consultation document suggests that annuity quotation dates ought to be during the six-month period following the valuation date, but we believe that the quotation date could be prior to the valuation date and that the difference should not be limited to six months; for instance, when a valuation report is filed in September, why not allow a quotation obtained in August?

The consultation document makes references to the CPM2014Proj mortality table, which is currently used under the CIA proxy, but since that table may, or surely will, change in the future, it would be preferable for CAPSA guidelines to simply refer to whatever table is included in the CIA proxy (without defining it).

Although we understand how the proposed disclosure requirements might be of interest to the pension supervisory authorities in some cases, we believe they may be too extensive in many cases. For instance, if a valuation uses an annuity quotation which is pretty close to the CIA proxy, then it may be unnecessarily costly to determine the resulting variation in mortality rates and discount rates, so it might be preferable to disregard such requirements if the two results are within a small range, such as within 5% of each other.

ACPM would like to thank you in advance for the consideration of our comments and please contact us if we can be of further assistance.

Sincerely,

A handwritten signature in cursive script, appearing to read "Ric Marrero", with a horizontal line underneath the signature.

Ric Marrero  
Chief Executive Officer  
ACPM