



ACPM/ACARR

The Association of Canadian Pension Management

L'Association canadienne des administrateurs de régimes de retraite

May 21, 2011

Financial Services Commission of Ontario  
Attention: Pension Policy Unit  
5160 Yonge Street, Box 85  
Toronto ON M2N 6L9

Dear Sir:

ACPM Comments on FSCO's draft **Actuarial Guidance** Note released April 2011

The Association of Canadian Pension Management (ACPM) is the informed voice of Canadian pension plan sponsors, administrators and their allied service providers. Established in 1976, the ACPM advocates for an effective and sustainable Canadian retirement income system through a non-profit organization supported by a growing membership and a team of volunteer experts. Our members are drawn from all aspects of the industry from one side of this country to the other. We represent over 400 pension plans consisting of more than 3 million plan members, with total assets under management in excess of \$330 billion.

The ACPM promotes its vision for the development of a world leading retirement income system in Canada by championing the following Guiding Principles:

- Clarity in legislation, regulations and retirement income arrangements;
- Balanced consideration of other stakeholders' interests; and
- Excellence in governance and administration

ACPM is pleased, with the valued assistance of its Ontario Regional Council, to provide comments on FSCO's draft Actuarial Guidance Note released as a public consultation document in April of 2011 and entitled "Canadian Institute of Actuaries, Practice-Specific Standards for Pension Plans effective on December 31, 2010".

ACPM understands that FSCO may have concerns that going concern actuarial valuation assumptions developed in accordance with the revised *CIA Standard of Practice – Practice Specific Standards for Pension Plans* and the CIA's Educational Note may not be considered by FSCO as appropriate for an actuarial valuation filed under the PBA and Regulation. The ACPM welcomes guidance from FSCO in this area, as it is complimentary to ACPM's desire for clarity in legislation, regulations and retirement income arrangements. However, ACPM is concerned to the extent that such guidance may be unclear, or may result in requirements for higher margins for adverse deviations than have applied in the past or unwarranted complexity and additional costs in the development or justification of those margins by actuaries in their assumption setting.

In light of those concerns, the ACPM has a number of comments. We believe that, in relation to certain aspects of the guidance, more pragmatism should be incorporated to acknowledge and allow for the wide variety of DB plans and their characteristics (e.g.

plan size, governance structure, respective mandates of actuaries and other consultants to those plans, etc.). In particular, the following aspects should be eliminated or their apparent scope should be significantly reduced:

- **Section 1** of the Note specifies: *“In selecting the actuarial assumptions and determining the appropriate margins to apply, the actuary should discuss with the plan administrator the plan’s past and expected future experience and identify both the range of reasonable assumptions and the likelihood of them being achieved, in the context of meeting the plan’s funding objectives.”*

The determination of a range of reasonable assumptions and the likelihood of them being achieved would be unrealistic for certain assumptions. For example, the actuary and the plan administrator may not have access to the employer’s salary policies (e.g. due to confidentiality of business strategies) which would make such determination impossible to perform. As another example, discussion of past experience in relation to a plan’s demographic assumptions and attempts to quantify a reasonable range for such assumptions may be difficult and/or meaningless for smaller plans, where such experience would have little statistical credibility. Moreover, ACPM is concerned with the potentially significant additional costs (e.g. research, modeling, reporting) that such determination could bring. For many plans, the costs of this extra work would be excessive in relation to its low additional value. For instance, for many plans, the most important determinate of the annual contribution requirement is the solvency funding position and resulting solvency amortization payments; therefore, the going concern funding measure – and the related discussion and analysis implied by the note - has little impact on the total funding contributions for these plans.

- **Section 3** of the Note specifies: *“... the actuary will discuss with the plan administrator whether the plan’s investment policy reflects the plan’s funding objectives, as well as the nature of the plan’s liabilities, the demographic profile of the plan, the risk tolerances of the plan stakeholders, the investment objectives, and any other relevant factors. In the actuarial valuation report filed in respect of a plan, the actuary should provide comments on the potential risks related to meeting the plan’s funding objectives, due to the investment policy adopted by the plan administrator.”*

ACPM is very concerned with the potential implications of this portion of the Note. For many plans, any involvement in development, review or amendment of the investment policy is outside the scope of the actuary’s engagement (e.g. another consultant or internal resources may be used for this purpose). Where the valuation actuary’s engagement is limited in this way, the requirement to have these discussions and the requirement for the actuary to provide comments in the filed valuation report on potential risks related to the investment policy would require the actuary to perform work that is outside the scope of the mandate for which they have been hired. At the least, it would constitute a significant, and potentially quite expensive, expansion of the role of the valuation actuary. Even in the situation where the actuary’s mandate does extend to the investment policy, this requirement could create a significant amount of additional work and expense in the actuarial valuation. Again, we question the additional value of these requirements relative to the potentially high relative costs of this work for a small plan and/or for a plan where the going concern funding is of low relative importance to the overall funding requirement. In ACPM’s opinion, the implementation of additional duties for service providers of pension plans, and

resultant additional plan costs, should be made only after extensive consultation with the pension industry.

- **Section 4** of the Note specifies: *“Nevertheless, the guidance may not be complete in all circumstances and FSCO may request additional information from the actuary, administrator, investment manager and/or plan sponsor for the justification of an assumption of additional returns from active management.”*

The text seems to contemplate circumstances where the CIA’s guidance is incomplete rather than situations where, for instance, the actuary’s consideration of various data and analysis is incomplete. It would be helpful if the Note elaborated on the circumstances in which the CIA’s guidance could be judged to be incomplete.

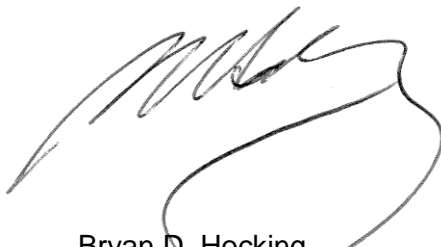
The Note’s effective date is December 31, 2010, which implies a retroactive impact for many plans. The work related to the December 31, 2010 or January 1, 2011 actuarial valuation results may already be fully or substantially completed and compliance with the Note would cause additional work and expense that is both unexpected and unbudgeted for.

Further, where the actuary has presented valuation results to the plan administrator, there may now be practical difficulties in the actuary having the discussions mandated by the Note. The application of the Note should therefore allow for the reality of actuarial work and related discussions between the actuary and the plan administrator being fully or substantially completed at the time the Note is finalized.

The existing legislative, regulatory, economic and legal environment, is proving challenging to sponsors and administrators of DB plans, with many concluding that continuing to provide a DB plan is not feasible. Any new measures imposed on DB plans must strive for clarity in their application and carefully consider the interests of all stakeholders to the plans, so as not to unnecessarily create further impediments to maintaining a DB plan in Ontario.

Should there be any questions, we make ourselves available at your convenience.

Sincerely,



Bryan D. Hocking  
Chief Executive Officer

cc:

Derek Dobson, Chair, ACPM Ontario Regional Council

Chris Brown, President, ACPM

Mitch Frazer, Chair, Advocacy and Government Relations Committee