



[UNOFFICIAL ENGLISH VERSION]

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BY E-MAIL

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Subject: Actuarial solvency valuations for pension plans with members outside of the Province of Québec

Mr. Gamache,

ACPM is the leading advocacy organization for a balanced, effective and sustainable retirement income system in Canada. Our private and public sector retirement plan sponsors and administrators manage retirement plans for millions of plan members, including both active plan members and retirees.

Some ACPM members in Québec have received calls from Retraite Québec recently regarding the methods used in actuarial solvency valuations to value the liabilities of active members and members entitled to a deferred pension, located outside of the Province of Québec.

Actuarial standards applicable in Canada require actuaries to perform a valuation of pension plans assuming that the pension plan would be terminated on the valuation date (hypothetical wind-up valuation). Under this approach, actuaries must assume what would happen in the event of an actual termination of the plan. In this context, actuaries commonly make assumptions about the payment option that would be chosen by active and deferred plan members. In Québec, the only option available is the transfer value. On the other hand, outside Québec, members can choose between the transfer value and the purchase of a deferred or immediate annuity. In such case, the actuaries establish appropriate assumptions to assume what percentage of the group of covered members outside Québec would choose one or the other of the available options.

We understand that Retraite Québec considers that, given the wording of the Supplemental Pension Plans Act (SPPA) and the 2020 Agreement respecting Multi-jurisdictional Pension Plans, the solvency liabilities of all active and deferred members should be valued using transfer value assumptions,

regardless of whether they are in Québec or outside Québec. Retraite Québec therefore expects actuarial solvency valuations to be carried out using this approach for members outside Québec.

Retraite Québec's position is such that the hypothetical wind-up valuation of the plan could not be used for the purposes of the solvency valuation required under the SPPA. The consequence of this is that separate valuations would be made on a solvency basis and on a hypothetical wind-up basis of the plan. This position results in the following impacts:

- Increased costs for pension plans to perform actuarial valuations on an additional basis (calculation of actuarial liabilities, adjustments to actuarial reports to report results on an additional basis).
- Potential confusion among pension committee members and plan members at annual meetings to explain that the solvency valuation assumes plan termination, but that the results are different from the valuation on a hypothetical wind-up basis of the plan.

It is worth remembering that since 2016, solvency valuations for Québec-registered pension plans have little purpose and are mainly used to calculate the degree of solvency. It is also worth pointing out that the differences would in most cases be minimal between the solvency valuation carried out according to Retraite Québec's position and the valuation on a hypothetical wind-up basis carried out in accordance with CIA Standards. Also, this difference would not be systematic or biased, that is to say, it could be positive or negative depending on the circumstances.

In this context, we would like Retraite Québec to reconsider its position or grant exemptions to allow only one valuation to be carried out. We note that section 142.3 of the SPPA allows for necessary modifications to be made. Retraite Québec could consider that the adjustments in question here are necessary modifications.

Finally, regardless of the position taken, Retraite Québec should not, in our opinion, require that valuations carried out in the past have to be modified, considering the costs involved and the confusion that this could create.

We remain available to discuss this at your convenience.

Yours sincerely,



F. Hubert Tremblay
Chair, Québec Regional Council
ACPM



Ric Marrero
Chief Executive Officer
ACPM