Professional Responsibilities of Pension Actuaries

A presentation for the International Actuarial Association
Canadian Issues

• Status of pension actuaries in Canada
• Reporting relationships
• Funding valuations
• Role of regulators
• Partial windups
Legal Recognition

- In pension benefits laws and tax law
  - Actuary means FCIA
  - CIA valuation standard recognized
  - CIA transfer value standard recognized
Status of Pension Actuaries in Canada

Informal Recognition

• CIA is seen as a respected source of unbiased information and opinion

• Right way: Transfer values

• Wrong way: Regulation 144
Reporting Relationships

• Law requires every plan to have an administrator, who is
  – In Quebec: a pension committee
  – Elsewhere: usually the employer

• Potential for conflicts
  – Labour concerns
Funding Valuations

- Going concern
- Solvency
- Hypothetical windup
Going Concern Valuation

- Must comply with CIA standard of practice
- Actuary has freedom to choose actuarial methods and assumptions
Going Concern Valuation

Typical Basis

- Assets at smoothed market value
- Projected unit credit method
- Realistic demographic assumptions
- Explicit economic assumptions (with margins)
Hypothetical Windup Valuation

- Assets at market value
- Estimated annuity purchase basis for pensioners
- Transfer values for actives
Solvency Valuation

• In some jurisdictions
  – Identical to hypothetical windup valuation

• In others
  – Can smooth asset values and discount rates
  – Can ignore certain benefits
Funding Requirements

- Current service cost
- Amortize deficits
  - Going concern: 15 years
  - Solvency: 5 years
- Contribution holidays generally allowed
Task Force on Pension Plan Funding

- Current funding objectives
  - Benefit security
  - Orderly pattern of contributions
- TF rejected #2
- TF saw problems on plan windup
  - Final pay plans: Fight over surplus
  - Flat benefit plans: Inadequate assets
Minimum funding based on projected solvency valuations, plus margin

Maximum funding based on going concern valuation (and full indexing)

Not widely accepted
Role of Regulator

- Traditionally: micro manage
- Trend: seek self-regulation
Partial Windups

- Creation of legislation
- Uncertain application
- Variation by jurisdiction
- Monsanto case
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