

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



Status of Pension Actuaries in Canada



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



Task Force Proposals



- 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



Professional Responsibilities of Pension Actuaries



A presentation for the International Actuarial Association

