

# Memorandum



To: Our Clients

From: Actuarial Department

Date: June 24, 2015

## Re: **New Mortality Tables for Pension Commuted Values**

### Introduction

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At its meeting on June 9, 2015, the Actuarial Standards Board (ASB) made a final decision to promulgate the use of the 2014 Canadian Pensioner Mortality Table (CPM2014) combined with the mortality improvement scale CPM Improvement Scale B (CPM-B) for pension commuted values effective October 1, 2015.

While some jurisdictions will need to amend their regulations before the new mortality assumption can be used, it is our expectation that that the regulations will be amended prior to October 1, 2015. Thus, this change is expected to impact members who terminate on and after October 1, 2015.

Furthermore, this change is expected to impact the hypothetical wind-up/solvency valuation results in the first actuarial valuation report prepared for funding purposes on or after October 1, 2015.

### Background

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#### The New Mortality Tables

As many of you are already aware, in February 2014, the Canadian Institute of Actuaries (“CIA”) issued its final report on Canadian Pensioners’ Mortality. This report contained the Canadian pensioners’ mortality tables and improvement scales based on the experience studies conducted by the CIA.

The primary objective of this study was to build mortality tables and mortality improvement scales that may be used for actuarial valuations for funding and financial reporting purposes for a broad range of Canadian pension plans, and to also be considered for use in the determination of pension commuted values and the division of pension benefits on marriage breakdown.

#### Pension Plan Funding & Accounting

For most of our clients, the new mortality tables have already been reflected in their actuarial valuations for going-concern funding. However, the new mortality tables have not yet been considered in the hypothetical wind-up/solvency valuations in an actuarial report prepared for funding purposes – and will be required to be reflected in the first valuation performed on or after October 1, 2015.

Furthermore, for clients for whom we prepare the calculations for financial statement reporting purposes, we have already considered the impact of the new mortality tables.

## Pension Commuted Values

Shortly following the release final report on Canadian Pensioners' Mortality, the ASB in December 2014 proposed to promulgate the use of the CPM2014 mortality table with improvement scale CPM-B for pension commuted value calculations. At that time, it was proposed that this promulgated table would be used for pension commuted value calculations on or after August 1, 2015, and that early implementation would not be permitted.

In April 2015, and after receiving some comments raising potential concerns regarding the proposed effective date of the promulgation of the new mortality table, the ASB decided to delay the effective date from August 1, 2015 to October 1, 2015.

In a communication dated June 15, 2015, it was announced that at its meeting on June 9, 2015, the ASB made a final decision to promulgate the use of the CPM2014 mortality table with improvement scale CPM-B for pension commuted values effective October 1, 2015.

For clarity, it is noted that the CPM 2014 mortality table is based on the combined experience of both public and private sector plans included in the CIA pensioner mortality study.

## Implications for Plan Sponsors

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### Financial Impact

Currently, pension commuted values are calculated using the Uninsured Pensioner 1994 mortality table with generational projection using Scale AA. As a result of changing the mortality assumption to the CPM2014 mortality table with improvement scale CPM-B, **it is expected that pension commuted values will increase by approximately 4% to 8%.**

For clarity, the actual increase will depend on a number of factors including: the age of the member, the gender of the member (or unisex mix used for commuted values), the retirement age, and the form of pension.

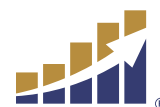
### Plan Administration

We wish to assure our clients that our systems are ready and capable to accommodate this change. As a result, when preparing commuted value calculations for our clients, ASI will ensure that the new mortality table is reflected for terminations on and after October 1, 2015.

### Pension Plan Funding & Accounting

As noted above, this change is expected to impact the hypothetical wind-up/solvency valuation results in the first actuarial valuation report prepared for funding purposes on or after October 1, 2015. In particular, the hypothetical wind-up/solvency liabilities for the proportion of members who are assumed to elect a commuted value transfer will increase as a result of this change. This change will lead to higher hypothetical wind-up/solvency liabilities, which in turn could lead to higher cash contribution requirements.

The hypothetical wind-up/solvency liability for the proportion of members who are assumed to be settled by a group annuity purchase is based upon an estimate of the cost to purchase an annuity at the valuation date. It is our understanding that insurers are already pricing annuities using their own proprietary mortality tables and projection scales, and that the ASB decision to promulgate the new mortality table for commuted values will not impact annuity costs.



As noted above, this change will not impact the accounting results for the clients for whom we prepare the calculations for financial statement reporting purposes.

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Please feel free to contact your consultant (Jason, Dean, or Carly) if you would like to discuss any of the above.

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