

ACTUARIAL ASSUMPTIONS

A bulletin designed to assist in the understanding of the superintendent's expectations regarding actuarial assumptions utilized in filed actuarial valuation reports or cost certificates of defined benefits plans registered pursuant to *The Pension Benefits Act, 1992*.

[This page was intentionally left blank]

SUPERINTENDENT'S EXPECTATIONS REGARDING ACTUARIAL ASSUMPTIONS

Introduction

This bulletin describes the Saskatchewan Superintendent of Pension's expectations regarding assumptions used in actuarial valuation reports and cost certificates filed in relation to registered pension plans.

As a general comment, the Superintendent expects actuaries to follow the Standards of Practice (SOP), as issued by the Canadian Institute of Actuaries (CIA), and consider the adoption of recommendations contained in the CIA Educational Notes when preparing actuarial valuation reports and cost certificates.

Margins

Section 3230.01 of the SOP provides that assumptions for a going concern valuation are either best estimates or best estimates modified to incorporate margins for adverse deviations to the extent required by law or the terms of engagement.

The Superintendent expects all reports to contain appropriate levels of margin consistent with the characteristics of the plan. The funding basis must support and promote appropriate levels of benefit security for plan members and former members. Where the Superintendent determines that appropriate levels of margin have not been included in a report, the Superintendent has the authority to require the report to be revised.

The Superintendent will continue to be open to discussing the specifics of margin for each plan, which will be reviewed on an individual basis. Further, arguments may be made for changes in margins as determined by the plan's funding policy, the plan's financial situation, maturity and investment policy, the sponsor's risk tolerance, etc.

It is not necessary that each assumption include a margin. For example, it would be acceptable to incorporate the necessary margin entirely in the discount rate assumption.

Rather than incorporating margins by adjusting assumptions, it may be acceptable to incorporate them by increasing liabilities via a reserve in the balance sheet.

Note: The Administrator of a pension plan that is subject to section 36.98 of *The Pension Benefits Regulations, 1993* must ensure that all actuarial valuation reports and cost certificates filed with a review date of December 31, 2017 or later comply with the margin and provision for adverse deviations requirements set out in that section.

Selection of Best Estimate Discount Rate

Section 3230.02 of the SOP provides that the discount rate assumption for a going concern valuation of a funded pension plan may either reflect the expected return on plan assets or be based on fixed income yields.

The CIA Educational Note “Determination of Best Estimate Discount Rates for Going Concern Funding Valuations” provides further guidance on the selection of appropriate best estimate discount rates. Although the selection of best estimate assumptions involves professional judgment, the educational note sets out principles that should be followed.

Active Management in Excess of Fees

Section 3230.03 of the SOP provides that, in establishing the discount rate for a going concern valuation, the actuary may not anticipate any additional returns, net of fees, from an active investment management strategy except to the extent the actuary has reason to believe, based on relevant supporting data, that such additional returns will be consistently and reliably earned over the long term.

The Superintendent expects the actuary to provide reasonable arguments and supporting documentation, including historical evidence, in support of the assumption that additional returns from active management will be achieved consistently and reliably over the long term. The disclosure requirements outlined in section 3260.02 of the Standards of Practice will normally satisfy this requirement, but the Superintendent may request additional information on a case-by case basis.

Investments Should Consider the Nature of Plan Liabilities

The plan’s investment policy is one of the factors that the actuary uses in setting the going concern discount rate. The Superintendent expects that the Statement of Investment Policies and Procedures gives due consideration to the nature of plan liabilities.

For further information please contact:

Pensions Division
Financial and Consumer Affairs Authority of Saskatchewan
4th Floor 2365 Albert Street
REGINA SK S4P 4K1

Email: pensions@gov.sk.ca
Tel: (306) 787-7650
Fax: (306) 798-4425
Web site: www.fcaa.gov.sk.ca

Update: August 2017