



# Information Bulletin

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## Final Pension Commuted Value Standards

The Actuarial Standards Board in Canada (ASB) has issued new actuarial standards governing how pension commuted values (Commuted Values) are calculated. This follows from earlier proposals published in 2017 and 2018 that were discussed in our [July 2017 Information Bulletin](#) and [January 2019 Information Bulletin](#).

The ASB has set an effective date of August 1, 2020 to provide plan administrators ample time to implement the changes in the pension administration systems. However, early adoption is permitted for target pension arrangements, including some multi-employer pension plans. In some jurisdictions, changes in regulations are required before a new commuted value standard can be used.

In many cases, the commuted values under the new standards will be less than the current standards, particularly for target pension arrangements and plans with significant early retirement subsidies on termination. Therefore, plan sponsors of target pension arrangements may decide to adopt the new standards as soon as practically possible.

The ASB was also considering making changes to the mortality basis for Commuted Values at the same time as adopting the new standards. Ultimately the ASB decided not to introduce any changes to the mortality basis at this time.

The following table highlights the main changes that are proposed.

## Highlights of Proposed Changes

Topic	Current Standards	2018 Proposed Changes	New Standard Changes
<b>Determination of interest rate: Liquidity spread (amount to add to Government of Canada bond yields)</b>	+0.9%	<ul style="list-style-type: none"> <li>2/3 provincial spread + 1/3 corporate spread (at mid and long term) capped at 1.5% and not less than 0%</li> </ul>	Same as 2018 proposed <ul style="list-style-type: none"> <li>Spreads to be published monthly on a publicly available website</li> </ul>
<b>Assumed Pension Commencement Age</b>	Age that maximizes the Commuted Value	<ul style="list-style-type: none"> <li>50% at age that maximizes the Commuted Value</li> <li>50% at earliest unreduced age</li> </ul>	Same as 2018 proposed, with clarifications: <ul style="list-style-type: none"> <li>For plans with different early retirement provisions for different periods of service use unique earliest unreduced age for each period of service</li> <li>For members impacted by income tax act limits on early retirement, these should be incorporated</li> </ul> retroactive payments should be included when required by legislation
<b>Rounding of Interest Rates</b>	<ul style="list-style-type: none"> <li>Round to 0.10%</li> <li>Indexation not rounded</li> </ul>	<ul style="list-style-type: none"> <li>Round to 0.10%</li> <li>For plans with indexation, three options are provided for rounding and indexing assumption should be disclosed separately</li> </ul>	Same as 2018 proposed, except: <ul style="list-style-type: none"> <li>For plans with indexation, two options are provided for rounding</li> </ul>
<b>Recomputation Period</b>	Determined by actuary, considering applicable legislation and plan rules	Determined by plan, applicable legislation or by plan administrator. Default would be nine months.	Same as 2018 proposed
<b>Additional Disclosure</b>	Not applicable	<ul style="list-style-type: none"> <li>Separate disclosure of indexing assumption from interest rate</li> </ul>	Same as 2018 proposed, plus: <ul style="list-style-type: none"> <li>Statement that commuted value may provide more or less retirement income than the deferred pension</li> </ul>

Topic	Current Standards	2018 Proposed Changes	New Standard Changes
<b>Target Pension Arrangements</b>	No difference – Commuted Value calculated like any other plan	<p>Going Concern liability approach:</p> <ul style="list-style-type: none"> <li>Going Concern liability of the former member</li> </ul> <p><b>OR</b></p> <ul style="list-style-type: none"> <li>Going Concern liability of the former member Multiplied by Adjustment related to Going Concern funded ratio per plan terms or legislation</li> </ul> <p>Going Concern assumptions include funding margins</p>	<p>Same as 2018 proposed, except Going Concern assumption used:</p> <ul style="list-style-type: none"> <li>Do not include funding margins, unless required by legislation or plan terms</li> <li>Should incorporate investment expenses and may incorporate non-investment expenses if required by legislation or plan terms</li> </ul> <p>If the actuarial present value of the member’s benefit entitlement is adjusted to reflect the funded status of the pension plan, assumptions to establish funded ratio must be consistent with those used to calculate the actuarial present value</p>

## Commentary

The changes made between the 2018 exposure draft and the final standards are generally not significant. They are refinements providing clarifications for special situations and incorporating feedback that was provided by stakeholders.

At this point in time the new interest basis, using a variable spread, produces results that are similar to the current basis, using a fixed spread. Over longer periods, we would not expect the new variable spread approach to be biased in producing either higher or lower values than the current basis.

As previously mentioned, the move away from an assumption that all members would commence their pension at the optimal age will reduce commuted values (perhaps materially) in plans that offer early retirement subsidies for terminated vested members. Plan administrators should review and make changes to administration systems, and if possible take advantage of early adoption in case of target pension arrangements, if practical. Changes to both commuted value calculations and disclosure on member termination statements will be required in most circumstances.

# Contact Information

Should you wish additional information on this topic, please contact your local Aon consultant, or send an email to [canada.retirement@aon.com](mailto:canada.retirement@aon.com).

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