Study Materials Update—October 2019

This material is required reading for purposes of the CEBS program and the national exams for the RPA 1 course administered on or after October 15, 2019.

This update covers Modules 1, 2, 3, 4, 6, 7 and 12 of the Study Guide (First Printing: July 2017, Second Printing: October 2017, Third Printing: October 2018 and Fourth Printing: January 2019).
How to Use This Update

For the printed version of the Study Guide:
Keep this update with your study materials. It should be read in conjunction with the assigned reading for RPA 1.

For the online Study Guide:
These updates will be reflected in the online versions of Study Guide Modules 1, 2, 3, 4, 6, 7 and 12.

Instructions
There are two types of updates:

1. Minor—Where changes are made to a small section of the text, changes are indicated in **bold**.
2. Major—Entire sections are provided as a replacement.
Study Guide Module 1

Page 2, Professional Enrichment Resources, Summary of Pension Legislation: Change the link to:


Add to the end of Why Read This?

You can select any/all jurisdictions to review minimum requirements, prescribed time limits for transfers upon termination of membership and main administrative requirements.

Page 23, Text Commentary: Insert the following commentary after Types of Pension Plans, Text, Page 15

Profit Sharing Pension Plan, Text, Page 20

Make changes to the first sentence of paragraph 1 indicated in bold and remove what is crossed out:

A profit sharing pension plan is a type of defined contribution plan where employer contributions can be are linked to the profitability of the company.

Defined Benefit Plans, Final Average Earnings Plans, Text, Page 77

Insert the following commentary at the end of paragraph 2 to reflect the expansion of the Quebec Pension Plan (QPP):

The Quebec government has implemented an expansion to QPP that closely matches that implemented under CPP. Some details vary.
Page 23, Text Commentary: Insert the following commentary after Career Average Earnings Plan, Text, Page 78

Capital Accumulation Plans, Text, Page 80

Insert the following commentary at the end of paragraph 2 to reflect the introduction of the advanced life deferred annuity:

The 2019 federal budget introduced the advanced life deferred annuity which, starting in 2020, can be used by members of federally registered pension plans to defer receiving income from a portion of their capital accumulation plan (CAP) account balance to the age of 85.
Page 2, Professional Enrichment Resources, Summary of Pension Legislation: Change the link to:

http://events.snwebcastcenter.com/manulife/GBRS/Prod/PensionLegislation/en
/summary-of-pension-legislation.html

Page 2, Professional Enrichment Resources, Why Read This?: Add the following to the end of the paragraph:

You can select any/all jurisdictions to review minimum requirements, prescribed time limits for transfers upon termination of membership and main administrative requirements.

Page 6, Answer to Content Knowledge Review 1.1: Add at the end of the answer to reflect the introduction of the advanced life deferred annuity:

An advanced life deferred annuity which, starting in 2020, can be used by a taxpayer to defer receiving income from a portion of their registered retirement savings plan (RRSP) to the age of 85.

Page 14, Page reference for Content Knowledge Review 4.1: Add as a reference:


Make changes to the first sentence indicated in bold and remove what is crossed out.

A plan member has four three options for using funds from an RRSP:

Insert after option (3) to reflect the introduction of the advanced life deferred annuity:

(4) Advanced life deferred annuity. Introduced in the 2019 federal budget, and starting in 2020. An advanced life deferred annuity can be used by a taxpayer to defer receiving income from a portion of their registered retirement savings plan (RRSP) to the age of 85.
**Page 14, Answer to Content Knowledge Review 4.2:** Add at the end of the answer to reflect the introduction of the advanced life deferred annuity:

Another option is an advanced life deferred annuity which, starting in 2020, can be used by a DPSP member to defer receiving income from a portion of their DPSP to the age of 85.

**Page 23, Reading A—Group Registered Retirement Savings Plans, In-Service Withdrawals:** Insert the following commentary at the end of paragraph 2 to reflect the introduction of the advanced life deferred annuity:

Note that the text (page 417) indicates there are three tax-effective retirement income options available to a DPSP member: a life annuity, a fixed-term annuity, or an RRIF. The 2019 federal budget introduced a fourth option—an advanced life deferred annuity which, starting in 2020, can be used by a taxpayer to defer receiving income from a portion of their registered retirement savings plan (RRSP) to the age of 85.

**Page 31, Reading B—Deferred Profit-Sharing Plans, Distribution Options:** Insert the following commentary at the end of paragraph 1 to reflect the introduction of the advanced life deferred annuity:

Another option is an advanced life deferred annuity which, starting in 2020, can be used by a DPSP member to defer receiving income from a portion of their DPSP to the age of 85.
Study Guide Module 3

Page 2, Professional Enrichment Resources, Canadian Benefits Guide: Change the link to:


Page 21, Text Commentary: Insert the following commentary after Primary Purpose to Provide Pension Benefits, Text, Page 233, to reflect the introduction of the advanced life deferred annuity.

Pension Commencement Date, Text, Page 233

As a result of the 2019 federal budget, it will be possible, starting in 2020, for members of federally registered defined contribution (DC) pension plans to defer commencement of a portion of their pension to the age of 85, by using an advanced life deferred annuity.
Study Guide Module 4

Page 2, Professional Enrichment Resources, Summary of Pension Legislation: Change the link to:


Page 2, Professional Enrichment Resources, Why Read This?: Add the following to the end of the paragraph:

You can select any/all jurisdictions to review minimum requirements, prescribed time limits for transfers upon termination of membership and main administrative requirements.

Page 19, Text Commentary: Insert the following commentary after Exceptions to Locking-In (Unlocking), Text, Page 263, to reflect the removal of a locked-in retirement income fund (LRIF), as it is no longer offered.

Portability, Text, Page 265

Remove Bullet 5: A locked-in retirement income fund (LRIF), which is now only offered in Newfoundland and Labrador.

Page 19, Text Commentary: Insert the following commentary after Portability, Text, Page 266.

Remove what is crossed out in “Transfer Vehicles for Newfoundland and Labrador”: RPP, LIRA, LIF, LRIF, or life annuity.
Study Guide Module 6

Page 1, Assigned Reading: Make changes to page references indicated in bold and remove what is crossed out to reflect updated reading.

Reading B—CAPSA Guideline No. 8, Defined Contribution Pension Plans Guideline, Study Guide Module 6, Pages 25-35

Page 2, Professional Enrichment Resources, Fund Holder Guideline: Change the link to:


Page 13, Content Knowledge Review 4.2: Make changes indicated in bold and remove what is crossed out:

4.2 Outline the role of the plan administrator for oversight, management and administration of a DC pension plan under the Canadian Association of Pension Supervisory Authorities (CAPSA) Guideline No. 8, Defined Contribution Pension Plans Guidelines. (Reading B, CAPSA Guideline No. 8, Defined Contribution Pension Plans Guideline, Study Guide Module 6, pp. 29-35)

The plan administrator is only responsible for:

(a) Administering the DC pension plan and investing the pension fund in accordance with applicable pension standards legislation, ITA and pension plan documents. Certain operational management tasks may be delegated to third-party service providers. However, the plan administrator remains responsible for overseeing the discharge of these tasks by monitoring the activities of the third-party service provider. Any delegation of tasks should be clearly documented.

(b) Introducing the plan to members, including a description of the plan terms

(c) Providing investment information and decision-making tools to members (if it is a capital accumulation plan (CAP))

(d) Providing ongoing communication to members

(e) Maintaining the plan and the pension fund

(f) Ensuring that termination of either the plan or a member is done in accordance with the requirements of the legislation and the terms of the DC pension plan

(g) Filing required documents with the pension regulator
(h) Ensuring employees are enrolled in the plan as required in accordance with the terms of the DC pension plan and applicable legislation

(i) Selecting and monitoring third-party service providers

(j) Selecting and monitoring investment options, including default option(s) to be made available in the DC pension plan

(k) If offering a variable benefit product, considering whether different default options should be used during the accumulation and decumulation phases.

**Page 14**, Content Knowledge Review 4.4, page reference: Make changes indicated in **bold** and remove what is crossed out.

(Reading B, CAPSA Guideline No. 8, Defined Contribution Pension Plans Guideline, Study Guide Module 6, p. 30)

**Page 15**, Content Knowledge Review 4.6: Make changes indicated in **bold** and remove what is crossed out.

4.6 Outline the responsibilities of a DC pension plan administrator to plan members who are approaching retirement. (Reading B, CAPSA Guideline No. 8, Defined Contribution Pension Plans Guideline, Study Guide Module 6, pp. 31-32-33)

Each jurisdiction has specific legislative requirements for the information to be provided to a member on cessation of membership. For members approaching retirement, plan administrators should provide information on:

(a) Options available to the member

(b) Any actions the member must take and deadlines for member action

(c) Any default options that may be applied if no action is taken

(d) The impact that the termination of plan membership will have on each investment option.

The plan administrator is expected to provide information regarding all the regulated retirement products available to plan members with respect to the payout phase, which may include (depending on legislation in each jurisdiction) Locked-In Retirement Accounts (LIRAs), locked-in registered retirement savings plans (RRSPs), Locked-In Retirement Income Funds (LRIFs), Life Income Funds (LIFs), life annuity contracts, prescribed Registered Retirement Income Funds (RRIFs) and variable benefits. Plan administrators should provide information that assists members in making informed decisions that strike a balance between protecting against risks inherent in various products and achieving target replacement rates.
with respect to their retirement options. Along with the retirement statement, plan administrators should provide information regarding the level of fees payable by the member or through the member’s account, including asset based fees that are payable with respect to each investment held in the account. As well, if the retirement statement provides retiring members with an option to move funds out of the plan and into investments with a current service provider, then the fees related to those investments should also be made available. Members should be provided with information regarding any unlocking options that may be available at the time of retirement.

Page 15, Content Knowledge Review 4.7, page reference: Make changes indicated in bold and remove what is crossed out.

(Reading B, CAPSA Guideline No. 8, Defined Contribution Pension Plans Guideline, Study Guide Module 6, p. 34)

Pages 25-33, Replace the current Reading B with the 2019 CAPSA Guideline No. 8 on the attached pages. The primary changes from the 2014 Guideline focus on three key areas:

1. Communication to members regarding variable benefits
2. Assumptions used in retirement projections
Reading

CAPSA Guideline No. 8,
Defined Contribution Pension Plans Guideline

Guideline No. 8
Defined Contribution Pension Plans Guideline

February 2019
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1.0 INTRODUCTION

1.1 Application

The Defined Contribution Pension Plans Guideline (the Guideline) applies to defined contribution (DC) pension plans, and to the DC component of hybrid or combination plans. Any reference in this Guideline to a DC pension plan includes the DC component of hybrid or combination plans.

This Guideline supplements existing CAPSA guidance related to DC pension plans and reflects the expectations of regulators regarding the operation of a DC pension plan, regardless of the regulatory regime applicable to the plan. CAPSA guidelines are voluntary in nature and are intended to support the continuous improvement and development of industry practices.

This Guideline does not replace any legislative or regulatory requirements. Stakeholders are responsible for meeting any applicable legal requirements, including any legal or legislative requirements that may extend beyond the scope of this Guideline.

1.2 Purpose

The DC Pension Plans Guideline:

- Sets out guidance related to DC pension plans that has previously been released by CAPSA.
- Outlines and clarifies the rights and responsibilities of plan administrators, employers, plan sponsors, service providers, fund holders and members with respect to DC pension plans.
- Provides DC pension plan administrators with guidance regarding tools and information to provide to members while they are members of the plan and when they are choosing retirement options.
- Where variable benefit products are an option, provides DC pension plan administrators with guidance regarding tools and information to provide to members who are in receipt of a variable benefit.
- Clarifies what constitutes an adverse amendment for DC pension plans or plans with DC components.

1.3 Existing CAPSA Guidance Related to DC Pension Plans

CAPSA Guideline No. 3 - Guidelines for Capital Accumulation Plans


A Capital Accumulation Plan (CAP) is defined in the CAP Guidelines as "a tax assisted investment or savings plan that permits the members of the CAP to make investment decisions among two or more investment options offered within the plan...established by an employer, trade union, association or any combination of these entities for the benefit of its employees or members... Examples of a CAP include a defined contribution registered pension plan; a group registered retirement savings plan or registered education savings plan; and a deferred profit sharing plan."

The CAP Guidelines provide guidance on:

- Setting up a CAP.
- Investment information and decision-making tools for CAP members.
- Introducing the CAP to members.
- Ongoing communication to CAP members.
- Maintaining a CAP.

1 For further details on the information and general features regarding retirement products that plan administrators may provide to members, including variable benefits, see: CAPSA Reference Document: Registered Retirement Products for DC Plan Members.
Terminating a CAP or terminating a CAP member’s participation.

The CAP Guidelines apply only to tax assisted plans (including DC pension plans) where members make investment decisions. In contrast, the DC Pension Plans Guideline applies to all DC pension plans regardless of whether or not members make investment decisions. However, there are some sections of the DC Pension Plans Guideline which would not be relevant to pension plans where members do not make investment decisions, such as sections describing an expectation that plan administrators provide members with information to assist them in deciding between investment options.

**CAPSA Guideline No. 4 - Pension Plan Governance Guideline, the related Self-Assessment Questionnaire and Frequently Asked Questions.**

In December 2016, CAPSA released revised **CAPSA Guideline No. 4: Pension Plan Governance Guideline** (CAPSA Guideline No. 4), the related **Self-Assessment Questionnaire** and **Frequently Asked Questions**, to assist plan administrators in fulfilling their governance responsibilities by achieving and maintaining good governance practices.

**CAPSA Guideline No. 5 - Guideline on Fund Holder Arrangements**

In March 2011, CAPSA released **CAPSA Guideline No. 5: Guideline on Fund Holder Arrangements**, which clarifies the nature of fund holder arrangements and related responsibilities.

In relation to DC pension plans, the Fund Holder Arrangement Guideline addresses the responsibilities of the fund holder(s).

**CAPSA Guideline No. 6 - Pension Plan Prudent Investment Practices Guideline, the companion Self-Assessment Questionnaire on Prudent Investment Practices**

In November 2011, CAPSA released **CAPSA Guideline No. 6: Pension Plan Prudent Investment Practices Guideline** and its companion document the **Self-Assessment Questionnaire on Prudent Investment Practices**.

The Prudent Investment Practices Guideline is intended to help plan administrators demonstrate the application of prudence to the investment of pension plan assets. Although the emphasis on pension plan asset investment varies depending on the type of plan, the Guideline is relevant to all plan types, including DC pension plans.

The self-assessment Questionnaire was designed to help plan administrators review the investment practices of the pension funds for which they have responsibility, to assist the plan administrator in satisfying the requirements of the prudent person rule, and to identify areas of strength and areas for improvement. DC pension plan administrators are encouraged to consider all the sections in this Questionnaire, rather than limiting their assessment to Section 8 (Defined Contribution Pension Plans).

### 2.0 RESPONSIBILITIES RELATED TO DC PENSION PLANS

The primary purpose of this section is to outline the responsibilities of various parties in relation to the DC pension plan.

#### 2.1 Responsibilities of the Plan Administrator

**Plan administrator** – the person, group, body or entity that is ultimately responsible for the oversight, management and administration of the pension plan and its pension fund, including the investment of the pension fund.

The plan administrator has fiduciary and other responsibilities to plan members, beneficiaries and other stakeholders which are outlined in the **CAPSA Guideline No. 4**.
The DC pension plan and pension fund must be administered and invested in accordance with applicable pension standards legislation, the Income Tax Act (ITA) and pension plan documents. Certain operational and management tasks may be delegated to third-party service providers, as selected by the plan administrator. However, the plan administrator remains responsible for overseeing the discharge of these tasks by monitoring the activities of the third-party service provider. Any delegation of tasks should be clearly documented. (For further details, see CAPSA Guideline No. 4.)

The plan administrator is also responsible for:

- Introducing the plan to members, including a description of the plan terms.
- Providing investment information and, if it is a CAP, decision-making tools to members.
- Providing on-going communication to members.
- Maintaining the plan and the pension fund.
- Ensuring that termination of either the plan or a member is done in accordance with the requirements of the legislation and the terms of the DC pension plan.
- Filing the required documents with the pension regulator.
- Ensuring employees are enrolled in the plan as required in accordance with the terms of the plan and applicable legislation.
- Selecting and monitoring third-party service providers.
- Selecting and monitoring investment options including default option(s) to be made available in the DC pension plan.
- If offering a variable benefit product, considering whether different default options should be used during the accumulation and decumulation phases.

When establishing a DC pension plan and throughout its existence, the plan administrator should take into account all relevant factors when selecting investment options to be made available to plan members. These should include the nature of the investment, its risk return profile and historical returns, bearing in mind that past performance is not necessarily predictive of future performance. In addition, the plan administrator should consider the number of investment options which are made available and the level of fees that members will pay. In particular, the administrator should consider the reasonableness of those fees compared to the market, and the impact of those fees on returns.

The information (and documentation) that the plan administrator is responsible for providing to members should be written using plain language, and in a format that assists in readability and comprehension.

### 2.2 Responsibilities of the Employer

*Employer* – a person or entity that employs members for remuneration and who is required to make contributions to member accounts in the DC pension plan.

The employer is responsible for deducting member contributions and remitting them to the pension fund along with employer contributions, within the time periods and in the amounts required by applicable pension standards legislation, the terms of the DC pension plan, and any collective agreements. By fulfilling these responsibilities, the employer meets its funding obligation and ensures the pension fund’s assets are held separate and apart from its own assets. The employer is also responsible for keeping accurate and up-to-date records on each member’s service and earnings, and any other information that is required by the plan administrator. In addition, the employer must provide this information to the plan administrator in a timely manner.

### 2.3 Responsibilities of the Plan Sponsor

*Plan sponsor* – the person or entity responsible for designing and establishing the DC pension plan and setting the benefit structure for various classes of members. The plan sponsor is often the employer.
When DC pension plan sponsors decide to establish a plan, they assume certain responsibilities in their role as the DC pension plan sponsor. The DC pension plan sponsor is responsible for establishing the pension plan, and for ensuring that it always has a plan administrator. They may also be responsible for making amendments to the pension plan and deciding if it should be wound up.

The DC pension plan sponsor should ensure that decisions about establishing and maintaining the plan, any amendments to the plan and information about how those decisions are made, are properly documented and that the documents are retained.

2.4 Responsibilities of Third-Party Service Provider

Third-party service provider – a person or entity retained to perform some or all of the plan administrator’s duties.

This Guideline continues to apply to the plan even if plan responsibilities are delegated to a service provider.

Service providers should have the appropriate level of knowledge and skill to perform the tasks they have accepted delegation on, including the provision of any advice within their area of expertise which may be requested by the plan administrator.

2.5 Responsibilities of the Fund Holder

Fund holder – the financial institution or entity that is retained by the plan administrator to hold the pension fund's assets in accordance with the terms of the fund holder agreement(s), the requirements of legislation (including the ITA) and the terms of the DC pension plan.

The fund holder holds all or part of the pension fund’s assets exclusively for the DC pension plan. (For further details, see CAPSA Guideline No. 5.)

2.6 Responsibilities of the Members

Member – an individual who has benefits accumulated in a DC pension plan.

For DC pension plans which allow members to make investment choices for their individual DC accounts, members are responsible for making investment decisions within the plan and for using the information and decision-making tools made available to assist them in making those decisions. Those members are accountable for investment decisions they make within the plan and are responsible for continually assessing whether their retirement needs and goals will be achieved. They should consider obtaining investment, financial planning and retirement planning advice from qualified advisors, in addition to using any information or tools the plan administrator may provide. They should also notify the plan administrator of errors in their personal data which they identify, and keep their investment instructions up to date.

Examples of decisions made by DC pension plan members include:

- If permitted by the terms of the DC pension plan, determining the amount they will contribute to the plan.
- Selecting investments.
- Determining the amount they will invest in any particular investment option.
- Determining whether they need to change their investment options.
- Selecting an option at termination and filing all documents with the plan administrator.

If participating in a variable benefit product, DC pension plan members should also:

- On a timely basis, determine their withdrawal amount from the plan each year, taking into account any prescribed limits.
- Use any information and decision-making tools provided, to examine the impact of their withdrawal choices on their future retirement income.
Understand the impact of withdrawal choices on the amount of retirement income available for their lifetime.

Periodically use any information or decision-making tools provided to re-evaluate their risk profile and investment choices.

### 3.0 INFORMATION FOR MEMBERS DURING ACCUMULATION PHASE

DC pension plan administrators should provide members with information and tools at key intervals (e.g. when members join the plan and periodically thereafter) to assist them in determining their retirement needs and goals, and how they may achieve their goals.

The CAP Guidelines provide guidance on the information that should be provided to members during the accumulation phase. That guidance includes:

- Providing information to new plan members, including a description and the amount of all fees, expenses and penalties relating to the plan that are borne by the members.
- Providing investment information and decision-making tools for members.
- Providing ongoing communication to members.

Sections 3.1 through 3.3, below, are intended to supplement the information provided in the CAP Guidelines.

The responsibility of providing this information to members rests with the plan administrator, although the delivery of this information may be delegated to third party service providers.

### 3.1 Information Regarding Investment Choices

Most DC pension plans allow members to make investment choices for their individual DC accounts, although the plan usually provides a limited number of options from which these choices can be made. In some DC pension plans, the plan administrator is responsible for the investment decisions. In all cases, the investments must comply with the rules set out in pension standards legislation and the ITA.

The plan administrator should provide members with useful and relevant information regarding the level of fees payable by the member or through the member’s account, including asset based fees that are payable with respect to each investment option. This information should be provided to members at least annually, and also whenever investment options or fees are changed.

For plans which allow members to make investment choices, plan administrators should provide to members:

- Sufficient detail on the investment options available in the plan so they can make informed investment decisions.
- Information on any changes to the menu of investment options available.
- Information on how their contributions will be invested if they do not provide investment instructions (i.e. the default investment option).

For plans which do not allow members to make investment decisions, plan administrators should provide information to members on how their contributions will be invested.

Each annual statement and any termination statement that a member receives should disclose the level of fees payable by the member or through the member’s account, including asset based fees that are payable with respect to each investment held in the account. If termination statements provide members with the option to move funds out of the plan and into investments with the current service provider, then the fees related to those investments should also be disclosed in the termination statement.
3.2 Information Regarding Contributions

Each jurisdiction has minimum legislative requirements regarding disclosure, and this guidance is in addition to these minimum requirements (where differences exist).

Plan administrators should provide information which includes:

- Formulae for member’s required contributions and any optional contributions (if applicable) and an explanation of how to select or change a contribution rate (if members must elect a contribution rate within a particular range).
- Formulae for employer contributions.
- Timing of member and employer contributions.
- Treatment of voluntary contributions (if permitted).
- How interest and earnings on contributions are to be applied.
- How and when contributions are vested and locked-in, and an explanation of what these terms mean.
- How and in what circumstances contributions can be withdrawn.
- Identification of any funds which are considered non locked-in by the plan and applicable legislation, and of any unlocking opportunities provided under plan rules and applicable legislation.
- Description of how any transfers into the fund will be treated.
- Explanation of options regarding maximizing employer matching contributions.

3.3 Information and Tools Regarding Estimates of Account Balances and/or Benefits

Plan administrators should provide members with information and tools to help them understand and estimate their plan benefits on retirement. These tools should take into account applicable assumptions needed to project benefits, including the impact of fees.

Plan administrators should provide members, at least annually, with an estimate of the value of the member’s account at retirement. They should also consider providing members, at least annually, with an estimate of the benefit that may result from that value.

Assumptions used to estimate the value at retirement or an expected periodic (e.g. monthly) income stream should be reasonable, and should be reviewed periodically. Plan administrators should demonstrate prudence in establishing appropriate assumptions. Plan administrators could use assumptions which are either internally or externally developed.

Plan administrators should disclose the assumptions used to arrive at an estimated future benefit and/or value, including the assumed level of fees, and should clearly state how the estimate can be affected if different assumptions are used.

Plan administrators should clearly indicate that actual future account values and benefits will likely differ from estimates.

Plan administrators should describe to members the purpose of the pension plan. Members should be informed that other sources of income or savings may be necessary to achieve their retirement income goals.

4.0 INFORMATION FOR MEMBERS WHO ARE APPROACHING THE PAYOUT PHASE

Each jurisdiction has specific legislative requirements for the information to be provided to a member on cessation of membership in DC pension plans without a variable benefit component. DC pension plans with a variable benefit component continue a relationship with a member even during the decumulation or payout phase. The CAP Guidelines also provide guidance on communicating to members...
regarding termination of participation in a plan, including retirement.

The CAP Guidelines state that the following information should be provided:

- Options available to the member.
- Any actions the member must take.
- Any deadlines for member action.
- Any default options that may be applied if no action is taken.
- The impact that the termination of plan membership will have on each investment option.

This information, where applicable, should also be provided to members of plans where no investment choice is available during the accumulation phase.

The information in Section 4.1 is intended to supplement the information provided in the CAP Guidelines.

### 4.1 Information Regarding Retirement Products

It is expected that the plan administrator will provide information regarding all of the regulated retirement products available to members with respect to the payout phase, which may include (depending on legislation in each jurisdiction, subject to change):

- Locked-in Retirement Account (LIRA) or Locked-in Registered Retirement Savings Plan (Locked-in RRSP).
- Locked-In Retirement Income Fund (LRIF).
- Life Income Fund (LIF).
- Life Annuity Contract.
- Prescribed Registered Retirement Income Fund (pRRIF).
- Variable Benefit.

Plan administrators should provide information which assists members in making informed decisions with respect to their retirement options.

Along with the retirement statement, plan administrators should provide information regarding the level of fees payable by the member or through the member’s account, including asset based fees that are payable with respect to each investment held in the account. As well, if the retirement statement provides retiring members with an option to move funds out of the plan and into investments with a current service provider, then the fees related to those investments should also be made available.

Members should be provided with information regarding any unlocking options which may be available at the time of retirement.

Before making an election, members should consider obtaining investment, financial planning and retirement planning advice from qualified advisors in addition to using any information provided by the plan administrator.

For further details on the information and general features regarding retirement products that plan administrators may provide to members, see: CAPSA Reference Document: Registered Retirement Products for DC Plan Members.

### 4.2 Variable Benefit Products

If variable benefit products are an option under the pension plan, it is expected that the plan administrator will also:

- Disclose any changes in investment options available to the member, including any changes in the default option.
- Disclose any changes in fees and additional fees charged as a result of entering the decumulation stage.
- Provide information about changes in risk tolerance when entering the decumulation stage.
- Provide information about longevity risks and investment risk and the impact those risks could have on the member’s retirement income.
5.0 INFORMATION FOR MEMBERS DURING THE PAYOUT PHASE

The only time that the plan administrator is responsible for ongoing communication during the payout phase is when the payout product is a variable benefit.

Where a variable benefit is permitted in a jurisdiction, pension standards legislation sets out information that the plan administrator must provide to the variable benefit owner. The plan administrator should also consider relevant sections of the CAP Guidelines and this Guideline to determine what information to provide to members with variable benefit accounts.

In the case of retirement products other than variable benefits, the information provided to the contract owner will be stipulated by the institution holding the funds according to legislative requirements.

5.1 Information Regarding Withdrawals from a Variable Benefit Plan

Each jurisdiction has legislative requirements regarding withdrawal rates, and this guidance is in addition to those legislative requirements.

For plans which allow members to make investment choices, plan administrators should provide to members:

- Sufficient detail on the investment options available in the plan so they can make informed investment decisions.
- Information on any changes to the menu of investment options available.
- Information on how their contributions will be invested if they do not provide investment instructions (i.e. the default investment option).

Plan administrators should also consider providing:

- Information on withdrawal amount options including any minimum and maximum withdrawal requirements.
- Information on sustainable withdrawal rates.
- Income estimates based on a range of investment return assumptions (pessimistic, best estimate, and optimistic) and withdrawal patterns or an income projection tool that accommodates varying investment return assumptions and withdrawal patterns.

If income estimates or income estimation tools are made available, plan administrators should clearly indicate that actual future income patterns will likely vary from estimates. The assumptions used in the estimates should be clearly stated.

Plan administrators should provide clear instructions on how and when members should inform them of their chosen withdrawal amount.

If participating in a variable benefit product, DC pension plan members should consider obtaining investment, financial planning and retirement planning advice from qualified advisors.

6.0 ADVERSE AMENDMENTS FOR DC PENSION PLANS

Adverse amendments are amendments which negatively affect the prospective benefits, rights, obligations or entitlements of members or other persons entitled to payments from the fund.

Although not an exhaustive list, the following may be considered to be adverse amendments for DC pension plans by some jurisdictions:

2 In some jurisdictions, there is no maximum withdrawal rate, so plan members should be made aware of when their variable benefit account is expected to be depleted based on their current withdrawal rate. A projection tool could be made available to members as part of the information provided for this purpose.
CAPSA GUIDELINE NO. 8
DEFINED CONTRIBUTION PENSION PLANS GUIDELINE

- Reduction of employer and/or increase in employee contributions.
- Changes in expense allocation (e.g. who pays for administrative expenses).
- Lengthening vesting requirements (e.g. immediate to two years).

6.1 Disclosure of Adverse Amendments for DC Pension Plans

Some jurisdictions may require the DC pension plan administrator to provide written notice to certain parties such as affected members and other plan beneficiaries, and trade unions (if applicable), before an adverse amendment is registered. These could include but are not limited to:

- Deferred vested members.
- Active members.
- Retired members.
- Survivors who are entitled to or are receiving benefits from the plan.
- Former pension partners who are entitled to benefits from the plan due to a property settlement as a result of a breakdown in a spousal relationship.
- Beneficiaries of deceased members who have not yet been paid out.
- Trade union of affected members.

Plan administrators should provide a written explanation of the amendment to the parties within the time limit required by the appropriate legislation.
Study Guide Module 7

Page 1, Assigned Reading: Make changes to page references indicated in bold and remove what is crossed out to reflect updated reading.

  Reading B—Excerpts from Canadian Institute of Actuaries Standards of Practice, Study Guide Module 7, Pages 31-54

Page 10, Content Knowledge Review 3.1, page reference: Make changes to page references indicated in bold and remove what is crossed out.

  (Text, pp. 183-184; Reading B, Excerpts from Canadian Institute of Actuaries Standards of Practice, Study Guide Module 7, p. 50)

Page 16, Content Knowledge Review 5.2: Make changes to page references indicated in bold and remove what is crossed out.

  5.2 Identify standards applicable to a going concern valuation of a pension plan according to CIA Standards of Practice. (Reading B, Excerpts from Canadian Institute of Actuaries Standards of Practice, Study Guide Module 7, p. 35)

  With respect to a going concern valuation of a pension plan, the actuary should:

  (a) Assume that the plan will continue indefinitely

  (b) Select best estimate assumptions, or best estimate assumptions modified to incorporate margins for adverse deviations, to the extent, if any, required by law or by the terms of the appropriate engagement

  (c) Consider all benefits of which the actuary is aware, including contingent benefits payable under the pension plan and should include provision for all benefits expected to be paid while the plan is ongoing unless the law requires the valuation to exclude such benefits or the law permits the exclusion of such benefits and terms of an the appropriate engagement stipulate that the actuary exclude such benefits be excluded.

Page 17, Content Knowledge Review 5.3: Make changes to page references indicated in bold and remove what is crossed out.

  (Reading B, Excerpts from Canadian Institute of Actuaries Standards of Practice, Study Guide Module 7, p. 49)
Page 18, Content Knowledge Review 5.4: Make changes indicated in bold and remove what is crossed out.

5.4 Identify additional content for an external user going concern valuation report required by the CIA Standards of Practice. (Reading B, Excerpts from Canadian Institute of Actuaries’ Standards of Practice, Study Guide Module 7, pp. 41-42)

When an actuary prepares a report on a going concern valuation to be used by an external user, the report should include:

(a) The rationale used when establishing the discount rate assumption

(b) The funded status of the plan at the calculation date and the service cost and the rule for calculating the service cost between the calculation date and the next calculation date

(c) A description of any pending amendments of which the actuary is aware and whether or not such an amendment has been included in determining the funded status and the service cost

(d) A description of any contingent benefits provided by the plan that have been excluded when determining the funded status and service cost

(e) A statement in the event there is no provision for adverse deviations

(f) A description and the amount of the gains and losses between the prior calculation date and the calculation date

(g) Information relating to the financial impact of using a discount rate 1% lower than that used in the valuation.

Pages 31-52, Replace the current Reading B with Excerpts from 2019 Canadian Institute of Actuaries Standards of Practice on the attached pages. The primary changes from the 2015 Guideline focus on revisions to Section 3260—Reporting: External User Report.
Excerpts from Canadian Institute of Actuaries Standards of Practice

3100 Scope

0.00 Part 1000 applies to work within the scope of this part 3000.

0.01 The standards in part 3000 apply as follows:

- Section 3200 applies to advice that an actuary provides regarding the funded status or funding of a pension plan, except where such advice is with respect to:
  - The wind-up, in full or in part, of a pension plan; or
  - The financial reporting of a pension plan’s costs and obligations in the employer’s or the pension plan’s financial statements;
- Section 3300 applies to advice that an actuary provides on the fund status or funding with respect to the wind-up, in full or in part, of a pension plan;
- Section 3400 applies to advice that an actuary provides with respect to financial reporting of a pension plan’s costs and obligations in the employer’s or the pension plan’s financial statements; and
- Section 3500 applies to advice that an actuary provides regarding the computation of commuted values in the circumstances described in subsection 3510.

The wind-up of a pension plan involves the settlement of plan benefits and distribution of all plan assets. The cessation of benefit accruals or termination of a plan, not involving the settlement of plan benefits and distribution of plan assets, would not constitute a plan wind-up.

0.02 The standards in sections 3200 through 3400 apply to advice with respect to a pension plan, including any arrangement that provides retirement income to its members, whether funded or not, whether registered or not, and whether in the private or public sector, except for:

- A defined contribution pension plan (noting that the standards do apply, however, to any pension plan that is a hybrid of a defined contribution pension plan and a defined benefit pension plan);
- A pension plan whose benefits are all guaranteed by a life insurer; and
- Social security programs such as the Canada Pension Plan, Québec Pension Plan, and the pension provided by the federal Old Age Security Act.

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Standards of Practice

3200 Advice on the Funded Status or Funding of a Pension Plan

.01 This section 3200 applies to advice that an actuary provides regarding the funded status or funding of a pension plan, except where such advice is with respect to:

- The wind-up, in full or in part, of a pension plan; or
- The financial reporting of a pension plan’s costs and obligations in the employer’s or the pension plan’s financial statements.

3210 General

.01 The actuary’s advice on the funded status or funding of a pension plan should take account of the circumstances affecting the work. [Effective February 1, 2018]

.02 The actuary should select an actuarial cost method that is consistent with the circumstances affecting the work. [Effective February 1, 2018]

.03 The actuary should select an asset valuation method that is consistent with the circumstances affecting the work. [Effective February 1, 2018]

.04 The actuary’s advice on the funded status of a pension plan should take account of the pension plan’s benefits at the calculation date, except that the actuary’s advice may anticipate a pending amendment to the pension plan that increases the value of its benefits. [Effective December 31, 2010]

.05 The actuary’s advice on the funded status or funding of a pension plan should take account of expenses if they are expected to be paid from the pension plan’s assets. [Effective December 31, 2010]

.06 The actuary’s advice on the funded status or funding of a pension plan may, consistent with the circumstances affecting the work, take into account the value and the terms of a letter of credit of which the pension plan is the beneficiary. [Effective February 1, 2018]

.07 If the actuary is providing advice on funding:

- The actuary should determine the next calculation date, and
- The actuary’s advice on funding should cover at least the period between the calculation date and the next calculation date. [Effective December 31, 2010]
Standards of Practice

Circumstances affecting the work

.08 For the purposes of section 3200, the circumstances affecting the work would include:

- Whether the actuary’s advice relates to the funded status or the funding of the pension plan, or a combination thereof;
- The terms of the appropriate engagement under which the work is being performed; and
- The application of the law to the work.

.09 In the case of a pension plan registered under the Income Tax Act (Canada), the actuary would be familiar with guidance with respect to the funding of pension plans that has been published by an applicable regulatory authority.

.10 Advice on funding would include:

- A valuation to establish the amount of a letter of credit to secure the payment of pension plan benefits;
- Advice regarding an amount of assets to be earmarked, but not segregated, to a trust fund, to cover pension benefit commitments; and
- Advice on the funding implications of a plan amendment.

.11 The terms of an appropriate engagement may specify applicable objectives of funding, which may include a formal or informal funding policy. For example, the terms of an appropriate engagement for a pension plan registered under the Income Tax Act (Canada):

- May be limited to preparation of an external user report on the basis of applicable law including the minimum contributions required by law;
- May require the preparation of an external user report recommending contributions reflecting objectives of funding specified by the plan sponsor or plan administrator, as applicable, in addition to the requirements of law; and
- Where contributions are fixed, may require the preparation of an external user report reflecting objectives of funding specified by the plan administrator or other appropriate authority, as applicable in addition to the requirements of law.

.12 The terms of an appropriate engagement may specify the use of a particular actuarial cost method and/or a particular asset valuation method, consistent with these standards.
Objectives of funding specified by the terms of an appropriate engagement may include considerations such as the security of benefits and related provisions for adverse deviations, the orderly and rational allocation of contributions among time periods, and/or inter-generational equity.

Depending on the circumstances affecting the work, the actuary’s advice on funding may describe a range of contributions.
When giving advice on the funded status or funding of a pension plan, the actuary should undertake one or more types of valuations that are consistent with the circumstances affecting the work. [Effective February 1, 2018]
Standards of Practice

Types of valuations

.02 There are different types of valuations that an actuary may undertake when giving advice on the funded status or funding of a continuing pension plan, the most common of which are:

- A going concern valuation;
- A hypothetical wind-up valuation; and
- A solvency valuation.

3230 Going Concern Valuation

.01 For a going concern valuation the actuary should:

- Assume that the plan continues indefinitely;
- Select either best estimate assumptions or best estimate assumptions modified to incorporate margins for adverse deviations to the extent, if any, required by law or by the terms of an appropriate engagement; and
- Consider all benefits of which the actuary is aware, including contingent benefits, payable under the pension plan and should include provision for all such benefits expected to be paid while the plan is ongoing unless:
  - The law requires the valuation to exclude such benefits; or
  - The law permits the exclusion of such benefits and the terms of an appropriate engagement stipulate that the actuary exclude such benefits. [Effective February 1, 2018]

Assumptions

.02 For pension plans that are funded, in selecting the best estimate assumption for the discount rate, the actuary may either:

- Take into account the expected investment return on the assets of the pension plan at the calculation date and the expected investment policy after that date; or
- Reflect the yields on fixed income investments, considering the expected future benefit payments of the pension plan and the circumstances affecting the work.

.03 In establishing the discount rate assumption, the actuary would assume that there will be no additional returns achieved, net of investment expenses, from an active investment management strategy compared to a passive investment management strategy except to the extent that 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.
Standards of Practice

.04 If the plan is a “designated plan” as that term is defined in the Income Tax Regulations (Canada) and the purpose of the going concern valuation is to determine the maximum funding permitted by law, then the actuary would use assumptions stipulated by law for that purpose.

Contingent benefits

.05 An example of a contingent benefit relevant to a going concern valuation is a provision granting the employer or plan administrator the right to waive early retirement reductions to members retiring from active employment. In making provision for such a contingent benefit, the actuary would consider past experience, current circumstances and future expectations relating to the employer’s or plan administrator’s granting of such benefits.

Benefits stipulated by law

.06 If the plan is a “designated plan”, as that term is defined in the Income Tax Regulations (Canada), and the purpose of the going concern valuation is to determine the maximum funding permitted by law, then the actuary would reflect the benefits stipulated by law for that purpose.

3240 Hypothetical Wind-up Valuation

.01 A hypothetical wind-up valuation determines the funded status of a pension plan on the assumption that the plan is wound up at the calculation date. The standards for a full wind-up valuation in section 3300 apply to a hypothetical wind-up valuation except for the external user report requirements therein and as superseded by the following recommendations. [Effective September 18, 2013]

.02 For a hypothetical wind-up valuation, the actuary should determine benefit entitlements on the assumption that the pension plan has neither a surplus nor a deficit. [Effective September 18, 2013]

.03 In determining the benefit entitlements, the actuary should postulate a scenario upon which the hypothetical wind-up valuation is based, taking account of the circumstances affecting the work. [Effective February 1, 2018]

.04 The actuary should take account of contingent benefits that would be payable under the postulated scenario for the hypothetical wind-up. [Effective September 18, 2013]

.05 For a hypothetical wind-up valuation, the actuary may assume that the wind-up date, the calculation date and the settlement date are coincident. [Effective September 18, 2013]
Standards of Practice

.05.1 For a hypothetical wind-up valuation, the actuary may assume that benefits would be settled by the purchase of annuities regardless of any limitation of capacity in the market for group annuity contracts. [Effective September 18, 2013]

.06 For a hypothetical wind-up valuation, the value of assets should be the market value of assets. [Effective September 18, 2013]

.07 For a hypothetical wind-up valuation, the actuary should select an explicit assumption for expenses expected to be payable from the pension plan’s assets to wind up the pension plan. [Effective September 18, 2013]

Membership data

.08 The precision of the membership data is less critical for a hypothetical wind-up valuation than for an actual wind-up valuation.

.09 Since an actual wind-up is not occurring, pertinent membership data may not be available. The actuary would make appropriate assumptions regarding such missing membership data. For example, it may be appropriate to retroject current earnings based on aggregate historical pay increases in order to estimate final average earnings.

Postulation of scenarios

.10 There are often multiple scenarios regarding the circumstances that may result in the wind-up of a pension plan. For a hypothetical wind-up valuation, the actuary may postulate any reasonable, internally consistent, scenario regarding the circumstances resulting in the wind-up of a pension plan, consistent with the circumstances affecting the work. For the postulated scenario, the actuary would reflect the treatment of any contingent benefits, including:

- Those that are contingent upon the wind-up scenario, such as a plant closure benefit; or
- Those that are required by law, such as a provision for earlier commencement of deferred pension entitlements in the event of plan wind-up; and
- Those that are contingent upon a factor other than the wind-up scenario.

.11 Examples of contingent benefits that are dependent upon factors other than the wind-up scenario or as required by law are:

- A provision granting the employer or plan administrator the discretion to waive early retirement reductions; and
- A provision providing enhanced benefits if funds are sufficient.
Subsequent events

.12 The actuary may reflect subsequent events in the valuation provided that doing so either increases the actuarial present value of the projected benefits at the calculation date or reduces the value of the pension plan’s assets at the calculation date.

Wind-up expenses

.13 Since the actuary would assume that the pension plan has neither a surplus nor a deficit, wind-up expenses related to the resolution of surplus or deficit issues need not be considered.

.14 In developing the assumption for expenses expected to be payable from the pension plan’s assets to wind up the pension plan, the actuary would also make an assumption as to the solvency of the employer. The assumption with respect to the payment of expenses and the assumption with respect to the solvency of the employer would be consistent.

Settlement Methods

.15 A hypothetical wind-up valuation requires the actuary to select assumptions about the methods of settlement.

.16 The actuary may assume a settlement method permitted by law or any relevant regulatory policy or guideline.

.17 The actuary may assume settlement by means of a replicating investment portfolio if permitted by law or any regulatory policy or guideline, or where it is anticipated that annuities could not be purchased due to group annuity capacity limitations. The assumed replicating portfolio would provide for an appropriate level of security for the pension benefits covered.

.18 The actuary may incorporate assumptions as to the exercise of regulatory discretion, a change in law, or a plan amendment which would be required to enable a practical settlement of benefits. When making such assumptions, the actuary would consider any relevant regulatory policy, guidance, or precedent.

.19 For example, for a plan where pensions are indexed with the Consumer Price Index and where it is impractical to purchase annuities indexed with the Consumer Price Index, the actuary may assume that annuities would be purchased with indexing at a fixed percentage rate of comparable value to indexing in accordance with the plan provisions.
Standards of Practice

3250  Solvency Valuation

.01 A solvency valuation typically is a form of a hypothetical wind-up valuation required by law and the actuary should apply the standards for a hypothetical wind-up valuation unless:

- Otherwise required by law; or
- Otherwise permitted by law and stipulated by the terms of an appropriate engagement. [Effective December 31, 2010]

.02 Examples of exceptions permitted by law for the preparation of a solvency valuation under the law of certain jurisdictions include:

- Use of a value of assets other than market value;
- Use of one or more assumptions that are not best estimate assumptions; or
- Exclusion of certain benefits from the valuation.

3255  Other Valuations

.01 For a valuation that is not a going concern valuation, a hypothetical wind-up valuation, or a solvency valuation, the actuary should select actuarial methods and actuarial assumptions that are consistent with the terms of an appropriate engagement. [Effective December 30, 2012]

.02 To the extent that a valuation is not a going concern valuation, hypothetical wind-up valuation, or solvency valuation, but has characteristics similar to one or more of these types of valuations, the actuary would consider any relevant standards for these types of valuations in undertaking the work.

.03 For example, a valuation for determining the required amount of a letter of credit for a supplemental plan is typically similar to a hypothetical wind-up valuation, but with the actuarial methods and actuarial assumptions stipulated by the terms of the engagement. In such circumstances, the actuary would consider the relevant standards for hypothetical wind-up valuations in undertaking the work.
### Standards of Practice

#### 3260 Reporting: External User Report

<table>
<thead>
<tr>
<th>.01 An external user report on work pursuant to section 3200 should:</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Include the calculation date, the report date, and the next calculation date;</td>
</tr>
<tr>
<td>- Describe the sources of membership data, plan provisions, and the pension plan’s assets, and the dates at which they were compiled;</td>
</tr>
<tr>
<td>- Describe the membership data and any limitations thereof;</td>
</tr>
<tr>
<td>- Describe the tests applied to determine the sufficiency and reliability of the membership data and plan asset data for purposes of the work;</td>
</tr>
<tr>
<td>- Describe the assets, including their market value and a summary of the assets by major category;</td>
</tr>
<tr>
<td>- Describe the pension plan’s provisions, including the identification of any pending definitive or virtually definitive amendment;</td>
</tr>
<tr>
<td>- Disclose subsequent events of which the actuary is aware, whether or not the events are taken into account in the work, or, if there are no subsequent events of which the actuary is aware, include a statement to that effect;</td>
</tr>
<tr>
<td>- State the type of each valuation undertaken under the terms of the appropriate engagement; and</td>
</tr>
<tr>
<td>- Describe any significant terms of the appropriate engagement that are material to the actuary’s advice. [Effective February 1, 2018]</td>
</tr>
</tbody>
</table>
Standards of Practice

.02 For each going concern valuation undertaken by the actuary, the external user report should:

- Describe the rationale for any assumed additional returns, net of investment management expenses, from an active investment management strategy as compared to a passive investment management strategy, included in the discount rate assumption;
- Report the funded status at the calculation date and the service cost or the rule for calculating the service cost between the calculation date and the next calculation date;
- Disclose any pending but definitive or virtually definitive amendment of which the actuary is aware, and whether or not such amendment has been included in determining the funded status and the service cost;
- Describe any contingent benefits provided under the pension plan and the extent to which such contingent benefits are included or excluded in determining the funded status and the service cost;
- Describe any benefits that are not contingent benefits and that have been excluded in determining the funded status and the service cost; and
- If there is no provision for adverse deviations, include a statement to that effect. [Effective March 31, 2015]

.03 If an external user report includes one or more going concern valuations then the external user report should, for at least one such valuation included in the report, describe and quantify the gains and losses between the prior calculation date and the calculation date, unless the going concern valuation is based on an extrapolation of results disclosed in a previous external user report. [Effective March 1, 2019]

.04 Repealed

.05 For each hypothetical wind-up valuation and solvency valuation undertaken by the actuary, the external user report should:

- Describe the basis for inclusion and the amount considered in respect of a letter of credit of which the pension plan is the beneficiary;
- Report the funded status at the calculation date;
- Include a description of the postulated scenario; and
- Include a description of the extent to which contingent benefits provided under the pension plan are included or excluded in determining the funded status. [Effective March 31, 2015]
Standards of Practice

.06 Repealed

.06.1 For each valuation that is not a going concern valuation, a hypothetical wind-up valuation, or a solvency valuation, the external user report should:

- Include a description of the extent to which contingent benefits provided under the pension plan are included or excluded. [Effective March 31, 2015]

.06.2 If an external user report includes one or more going concern valuations then the external user report should, for at least one such valuation included in the report, report the effects of using a discount rate 1.0% lower than that used for the valuation on:

- The actuarial present value, at the calculation date, of projected benefits allocated to periods up to the calculation date; and

- The service cost or the rule for calculating the service cost between the calculation date and the next calculation date;

unless

- The purpose of the valuation is the determination of the maximum funding permitted by law for a “designated plan”, as that term is defined in the Income Tax Regulations (Canada); or

- The going concern valuation is for a pension plan which is not registered under a pension benefits standards act of a province or the federal government of Canada; or

- The going concern valuation is based on an extrapolation of results disclosed in a previous external user report. [Effective March 1, 2019]
.06.3 If an external user report includes one or more hypothetical wind-up valuations or solvency valuations then, for any one such hypothetical wind-up valuation or solvency valuation, the external user report should:

- Report the incremental cost between the calculation date and the next calculation date, in respect of the defined benefit portion of the plan;
- If the external user report does not include a going concern valuation, report the service cost or the rule for calculating the service cost between the calculation date and the next calculation date in respect of the defined contribution portion of the plan;
- Report the effect on the hypothetical wind-up or solvency liabilities, at the calculation date, of using a discount rate 1.0% lower than that used for the valuation; and
- If the external user report does not include a going concern valuation, describe and quantify the gains and losses between the prior calculation date and the calculation date;

unless

- The pension plan is a “designated plan” which has, as members, only persons “connected” with the employer as those terms are defined in the Income Tax Regulations (Canada); or
- The hypothetical wind-up valuation or solvency valuation is for a pension plan which is not registered under a pension benefits standards act of a province or the federal government of Canada; or
- The hypothetical wind-up valuation or solvency valuation is based on an extrapolation of results disclosed in a previous external user report. [Effective March 1, 2019]

.06.4 Where contributions are fixed or restricted by the terms of the pension plan or other governing documents, and the actuarial certification of the funding of the plan in accordance with the law or any regulatory policy or guideline is directly dependent on the results of a stochastic funding model regarding the adequacy of the contributions to the plan to sustain one or more target levels of benefits from the plan, the report should disclose the stochastic funding model results which are relevant to the provision of the actuarial certification. [Effective March 1, 2019]

Plausible adverse scenarios

.06.5 A plausible adverse scenario would be a scenario of adverse but plausible assumptions, relative to the best estimate assumptions otherwise selected for the valuation, about matters to which the pension plan’s financial condition is sensitive. Plausible adverse scenarios vary among pension plans and may vary over time for a particular pension plan.
.06.6 If an external user report includes one or more going concern valuations, then the actuary should consider threats to the pension plan’s future financial condition under plausible adverse scenarios that include, where appropriate, the following risks:

- Interest rate risk, the potential that interest rates will be lower than expected;
- Deterioration of asset values;
- Longevity risk, the potential that pension plan members will live longer than expected;
- For pension plans where contributions are fixed or restricted by the terms of the plan or other governing documents, the potential that the contribution base will be lower than expected;

unless

- The pension plan is a “designated plan” which has, as members, only persons “connected” with the employer as those terms are defined in the Income Tax Regulations (Canada); or
- The valuation is for a pension plan which is not registered under a pension benefits standards act of a province or the federal government of Canada; or
- The valuation is based on an extrapolation of results disclosed in a previous external user report. [Effective March 1, 2019]

06.7 In considering the plausible adverse scenarios, the actuary may:

- Make reasonable determinations of the asset classes which are classified as fixed income investments;
- Restrict the impact of interest rate risk to the asset classes deemed to be fixed income investments and to the discount rate to the extent that the discount rate is affected by fixed income investments;
- Assess the impact of the risks in combination, but the actuary would not be required to do so;
- Reflect the impact of any compensating adjustments, such as a potential reduction in any margin implicit in the discount rate in response to a lower interest rate scenario;
- Reference any related work, such as asset-liability modelling work, with which the actuary has been involved or which has otherwise been made available to the actuary.
Standards of Practice

.06.8 If an external user report includes one or more going concern valuations, then the external user report should, for at least one such valuation included in the report, report the effects on:

- The funded status of the plan on a market value or smoothed value basis at the calculation date, separating the effects on assets and liabilities, where applicable; and
- The service cost or the rule for calculating the service cost between the calculation date and the next calculation date;

of the plausible adverse scenarios selected by the actuary for the risk assessments under paragraph 3260.06.6. [Effective March 1, 2019]

.07 An external user report that provides advice on funding should:

- Describe the determination of contributions or a range of contributions between the calculation date and the next calculation date;
- If contributions are fixed by the terms of the plan or other governing documents, then either:
  - Report that the contributions are adequate to fund the pension plan in accordance with the law; or
  - Report that the contributions are not adequate to fund the pension plan in accordance with the law; and
    - Describe the contributions required to fund the pension plan adequately in accordance with the law;
    - Describe one or more possible ways in which benefits may be reduced such that the contributions would be adequate to fund the pension plan in accordance with the law; or
    - Describe a combination of increases in contributions and reductions in benefits that would result in the funding being adequate to conform to the law. [Effective December 30, 2012]
Standards of Practice

.08 An external user report should provide the following four statements of opinion, all in the same section of the report and in the following order:

- A statement regarding membership data, which should usually be, “In my opinion, the membership data on which the valuation is based are sufficient and reliable for the purpose of the valuation.”;
- A statement as to assumptions, which should usually be, “In my opinion, the assumptions are appropriate for the purpose(s) of the valuation(s).”;
- A statement as to methods, which should usually be, “In my opinion, the methods employed in the valuation are appropriate for the purpose(s) of the valuation(s).”; and
- A statement as to conformity, which should be, “This report has been prepared, and my opinions given, in accordance with accepted actuarial practice in Canada.” [Effective December 30, 2012]

.09 An external user report should be sufficiently detailed to enable another actuary to assess the reasonableness of the valuation. [Effective December 30, 2012]

Membership data

.10 Any assumptions and methods used in respect of insufficient or unreliable membership data would be described.

.11 The actuary may describe limitations on the tests conducted in the review of the data which has been determined to be sufficient and reliable for purposes of the valuation(s). For example, the actuary may describe that the data tests will not capture all possible deficiencies in the data and reliance is also placed on the certification of the plan administrator as to the quality of the data.
Types of valuations

.12 The external user report may provide information with respect to multiple valuations, but would, as a minimum:

- If the pension plan is a registered pension plan and is not a “designated plan”, as that term is defined in the Income Tax Regulations (Canada), provide information with respect to:
  - A going concern valuation, if mandated by law or specified by the terms of an appropriate engagement;
  - A hypothetical wind-up valuation under the scenario regarding the circumstances resulting in the wind-up that, subject to paragraph 3260.19, maximizes the wind-up liabilities, unless the pension plan and the law do not define the benefits payable upon wind-up; and
  - Any other hypothetical wind-up or solvency valuation mandated by law;
- If the pension plan is a “designated plan” as that term is defined in the Income Tax Regulations (Canada), provide information with respect to:
  - A going concern valuation, if mandated by law or specified by the terms of an appropriate engagement;
  - A hypothetical wind-up valuation under the scenario regarding the circumstances resulting in the wind-up that, subject to paragraph 3260.19, maximizes the wind-up liabilities, unless the pension plan and the law do not define the benefits payable upon wind-up or the plan has, as members, only persons “connected” with the employer as that term is defined in the Income Tax Regulations (Canada); and
  - Any other hypothetical wind-up or solvency valuation mandated by law;
- If the pension plan is not a registered pension plan, include information with respect to the types of valuations required by the circumstances affecting the work.
Standards of Practice

3500 Pension Commuted Values

3510 Scope
The standards in this section 3500 apply to an actuary's advice on the computation of commuted values, including commuted values to be paid from a pension plan that is registered under an Act when the method of settlement is a lump sum payment in lieu of an immediate or deferred pension resulting from death or individual termination of plan membership except for the specific circumstances that are described below in paragraph 3510.03. In particular, the standards in this section 3500 apply:

- In a jurisdiction whether or not there is legislation in that jurisdiction that specifically provides for portability of pension benefit credits;
- Regardless of limits imposed by the Income Tax Act (Canada) on amounts that may be transferred to other tax-sheltered retirement plans; and
- Under a reciprocal pension agreement between plan sponsors where the result of the reciprocal agreement is either to establish a pension amount determined on a defined contribution basis or to establish an account balance under a defined contribution provision of a plan, whether the account balance is to be converted immediately or subsequently into a pension.

The standards in this section 3500 also apply to the determination of a lump sum payment from the pension plan in lieu of an immediate or deferred pension to which a plan member's former spouse is entitled after a division of the member's pension on marital breakdown.

The standards in this section 3500 do not apply:

- Under a reciprocal pension agreement between plan sponsors where the result of the reciprocal agreement is to provide defined pension benefits for the plan member;
- To the determination of commuted values of pensions and deferred pensions payable from pension arrangements that are not registered under an Act;
- To the conversion of defined pension benefits to a defined contribution arrangement where there is no termination of active employment;
- To the determination of commuted values of pensions that have commenced payment and where commutation is at the discretion of the member, except as explicitly required under paragraphs 3510.02 or 3560.01; or
- When calculating the capitalized value of pension benefits for actuarial evidence purposes, pursuant to part 4000, where such value does not relate to a commuted value payable from a registered pension plan.
Standards of Practice

Act

.04 For the purposes of this section 3500, “Act” means a pension benefits standards act of a province or the federal government of Canada or the Income Tax Act (Canada).

Retirement Compensation Arrangements

.05 Since Retirement Compensation Arrangements (RCAs) are not required to be registered under the Income Tax Act (Canada), this section 3500 applies to commuted values payable from an RCA only if the RCA is registered under a pension benefits standards act of a province or the federal government of Canada.

3520 Method

.01 The commuted value should be independent of the funded status of the pension plan at the valuation date. [Effective April 1, 2009]

.02 The actuary should establish the period for which the commuted value applies before recomputation is required, taking into account the requirements of applicable legislation and the plan rules. Commuted values paid after the end of such period should be recomputed on the basis of a new valuation date. [Effective April 1, 2009]

.03 The commuted value should be adjusted for a reasonable rate of interest, taking into account the requirements of applicable legislation, between the valuation date and the first of the month in which the payment is made. [Effective April 1, 2009]

.04 The commuted value should reflect the plan member’s full benefit entitlement as a deferred or immediate pensioner, as may be applicable, determined under the terms of the pension plan. In the case of a deferred pensioner, the commuted value should include the value of the death benefit that would have applied before commencement of the deferred pension. [Effective April 1, 2009]

.05 The actuary should not calculate a commuted value using methods or assumptions that produce a commuted value smaller than the value computed in accordance with this section 3500. [Effective April 1, 2009]

Valuation date

.06 The valuation date means the date as of which a value is being computed. Generally, this would be the date upon which the plan member becomes entitled to an immediate or deferred pension resulting from death or individual termination of plan membership, or as of such other date as may be determined either by legislation, by the plan rules, or by a plan administrator who is empowered to do so, on which the right to receive a commuted value becomes effective.
Standards of Practice

.07 In the event that recomputation is required in accordance with these standards, the actuary would establish a new valuation date. The actuary would make calculations at the new valuation date in accordance with the standards in effect on the new valuation date.

Conditions attached to payment

.08 Applicable legislation or the plan provisions may attach conditions to the payment of a portion of the commuted value when the plan is less than fully funded on a plan termination basis.

Benefit entitlement

.09 Where, at the valuation date, a plan member has the right as a deferred or immediate pensioner, as may be applicable, to optional forms of pension or optional commencement dates, and where such right is contingent on an action that is within the member’s control and where it is reasonable to assume that the member will act so as to maximize the value of the benefit, the option that has the greatest value would be used in the determination of the commuted value. For example, where a member has terminated employment and, upon application, is eligible for a particular benefit that has a value, it is reasonable to assume that, upon acquiring expert advice, the member will apply for the benefit.

.10 However, where such right is contingent upon an action that is within the member’s control and where it is not reasonable to assume that the member will act so as to maximize the value of the benefit, an appropriate allowance would be made for the likelihood and timing of such action. For example, where a member is continuing in employment and is entitled to an unreduced pension that commences upon termination of employment, it may not be reasonable to assume that the member will immediately terminate employment in order to maximize the value of the benefit. In determining the likelihood and timing of such action, the actuary may use group data, and the actuary would be prepared to justify the allowance that has been made.

.11 The commuted value determined by the actuary using these assumptions made in accordance with the preceding paragraphs 3520.09 and 3520.10 may prove to have recognized certain potential entitlements that are never realized, or may prove to have disregarded certain entitlements that ultimately provide value.

Alternative methods and assumptions

.12 The actuary may calculate a commuted value on methods and assumptions that differ from those prescribed in these standards only if:

- The resulting value is larger; and
- Such value is required by the plan terms or applicable legislation, or by a plan administrator who is empowered to specify the basis on which commuted values are to be determined.
Standards of Practice

3530  Demographic Assumptions

.01 Except for situations specifically noted below, the actuary should assume:
   • Separate mortality rates for male and female members; and
   • Mortality rates in accordance with a mortality table promulgated from time to time by the Actuarial Standards Board for the purpose of these calculations. [Effective February 1, 2014]

.02 No adjustment should be made to reflect the health or smoker status of the member. [Effective February 1, 2014]

.03 The current age of the plan member should be used when valuing an immediate pension. [Effective February 1, 2014]

.04 If the plan provides a contingent benefit only to the person who is the plan member’s spouse at the date of termination of membership, the actual age of the spouse, if any, should be used in the computation. If this information cannot be obtained, an appropriate proportion married and age difference between the plan member and spouse should be assumed. [Effective February 1, 2018]

.05 Where the plan provides a contingent benefit to a plan member’s spouse and a change in the member’s marital status after the valuation date is relevant to the determination of the commuted value, the actuary should make an appropriate assumption concerning the likelihood of there being an eligible spouse, and the age of that spouse, at the time of death. [Effective February 1, 2014]

.06 When valuing deferred pensions, including deferred pensions for a plan member who may also be entitled to an immediate pension, the normal retirement age should be used, except in the situation where the terminated plan member has the right to elect an earlier commencement date and the consequent early retirement pension exceeds the amount that is of actuarial equivalent value to the pension payable at normal retirement age. The retirement age should be determined in a manner consistent with paragraph 3520.09. [Effective February 1, 2018]

.07 The demographic assumptions would be the same for all types of immediate and deferred pensions.
Standards of Practice

Mortality

.08 The actuary would calculate commuted values that do not vary according to the sex of the plan member where the actuary is required to do so by applicable legislation or by the provisions of the plan or by the plan administrator if the administrator is so empowered by the provisions of the plan. In this case, the actuary would adopt a blended mortality approach by either developing a mortality table based on a combination of male and female mortality rates, or computing the commuted value as a weighted average of the commuted value based on male mortality rates and that based on female mortality rates. The relative proportions of males versus females would be appropriate for the particular plan.

.09 If the requirement that commuted values do not vary according to the sex of the plan member is legislated and applies only to benefits earned after a particular date or only to a subgroup of plan members, the actuary may extend the use of a blended mortality approach to commuted values of benefits earned prior to such date or to commuted values of benefits of all members.

3540 Economic Assumptions

.01 The actuary should select economic assumptions that vary depending on whether the pension is fully indexed, partially indexed or non-indexed. [Effective April 1, 2009]
Standards of Practice

3550 Disclosure

.01 When communicating the amount of the commuted value of a member’s pension, the actuary should provide:

- A description of the benefit entitlements involved;
- A description of the actuarial assumptions used in determining the commuted value and the rate of interest to be credited between the valuation date and the date of payment;
- A statement of the period for which the commuted value applies before recomputation is required;
- When the payment of a portion of the commuted value is subject to a condition based on the funded status of the plan, the additional contribution required for the payment of the full commuted value to be made or the recommended schedule for payment of the balance of the commuted value, if applicable; and
- A statement as to whether the commuted value has been computed in accordance with these standards. [Effective February 1, 2018]

.02 Where the commuted value has not been determined in accordance with these standards, the actuary should clearly state that the calculation is not in compliance with these standards and disclose all areas of noncompliance and the reasons for the noncompliance. [Effective April 1, 2009]

.03 When communicating to the plan administrator an actuarial basis to be used in determining commuted values, the actuary should provide a statement that the actuarial basis is in accordance with these standards. [Effective February 1, 2018]
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