



SUPERINTENDENT'S EXPECTATIONS FOR MARGINS

Introduction

This bulletin describes the Saskatchewan Superintendent of Pension's response to the revisions made by the Canadian Institute of Actuaries (CIA) to the *Standards of Practice – Practice-Specific Standards for Pension Plans*, effective December 31, 2010.

As a general comment, the Superintendent expects actuaries to follow the revised CIA Standards of Practice and consider the adoption of recommendations contained in the CIA Educational Notes when preparing actuarial valuation reports and cost certificates. Further, the Superintendent provides the following comments on the specific changes made to the Standards of Practice.

Margins

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

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

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

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

Rather than incorporating margins by adjusting assumptions, it may be acceptable to incorporate them by increasing liabilities via a reserve in the balance sheet. The Pensions Division should be consulted if this approach is being considered.

Selection of Best Estimate Discount Rate

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

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

Active Management in Excess of Fees

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

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

Investments Should Consider the Nature of Plan Liabilities

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

For further information please contact:
Saskatchewan Financial Services Commission, Pensions Division
Suite 601, 1919 Saskatchewan Drive
REGINA SK S4P 4H2
Tel: (306) 787-7650
Fax: (306) 798-4425
Web site: www.sfsc.gov.sk.ca

Revised: August 16, 2011