

December 15, 2014

Canadian Institute of Actuaries Announcement on Mortality Table for Pension Plan Commuted Value Calculations

The Canadian Institute of Actuaries (CIA) released a memorandum on December 4, 2014 on the use of the mortality table for pension commuted values. The CIA proposes to use the 2014 Canadian Pensioner Mortality Table (CPM2014) combined with the mortality improvement scale CPM Improvement Scale B (CPM-B) for calculations with effect from August 1, 2015.

In order to revise the mortality assumption, the CIA follows a three-step process: Initial Communication, Report on Comments, and Final Communication. The comment submission deadline is February 15, 2015, and the CIA intends to release the final communication of the new table on May 1, 2015.

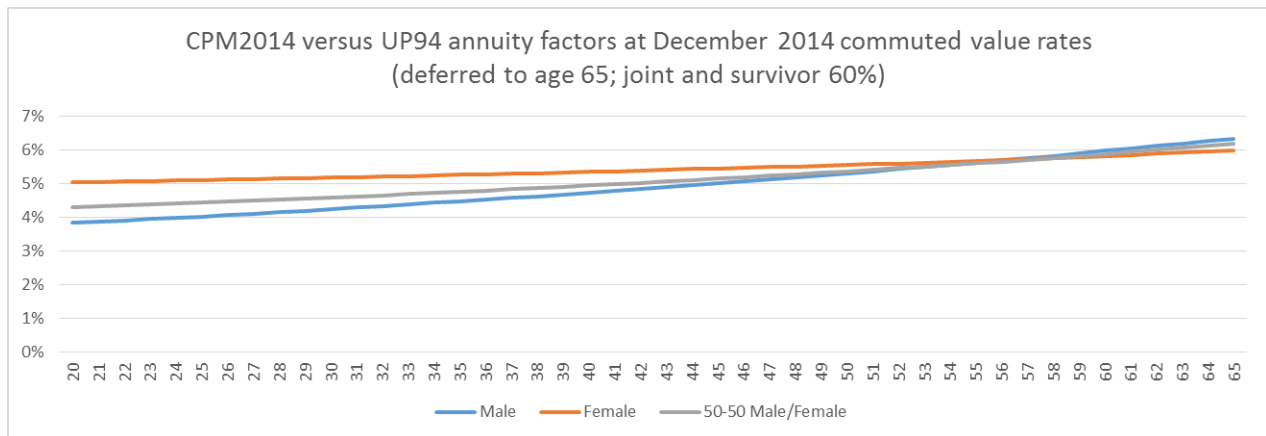
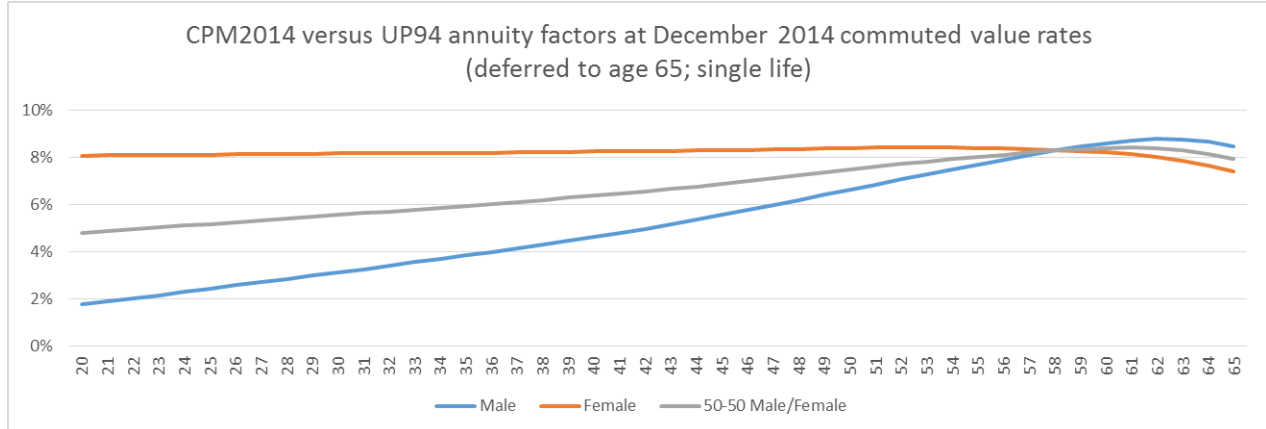
This change in mortality assumptions will impact:

- a) Calculations for plan members who commute their benefits from their pension plan,
- b) Lump sum payments on the death of a member prior to retirement, and
- c) Liabilities for solvency and wind-up valuations.

The CIA's memo provides examples where the commuted values under the new standard are approximately 4% - 7% higher than the previous basis. A more detailed analysis on the differences between the two mortality tables is described below.

Annuity factors

- The CPM mortality basis increases the value of life annuities for the most scenarios.
- For single life annuities deferred to age 65, the annuity factors under the proposed basis are approximately 8% higher for females from ages 20 to 65. For males the impact at age 20 is approximately 2%, and increases to over 8% at age 60.
- The impact on joint and survivor deferred annuities follows a similar pattern to single life deferred annuities, although there is a greater impact for male members, and a smaller impact for female members.
- The graphs below show the increase in annuity factors from UP94 to CPM2014 at ages 20 to 65 for life annuities deferred to age 65 with a 5-year guarantee period, and joint and survivor annuities deferred to age 65 with a 5-year guarantee period. The discount rates used are applicable for December 2014, the latest rates available at the time of the announcement: 2.5% for 10 years and 3.8% thereafter.



Conclusions

The new mortality table used for commuted value calculations will have the following impacts on defined benefit pension plans:

- Commuted value payments to terminating plan members will increase by 4-8%, depending on the member's age and gender and the plan's pension benefits.
- The portion of the plan's solvency liability assumed to be settled through commuted value payouts will increase by approximately 5%. Note that the portion of the plan's solvency liabilities assumed to be settled by annuity purchase will not be impacted, since annuity premium rates already reflect the new mortality table.
- The overall impact on the plan's solvency liabilities will vary depending on the plan's maturity (proportion of retirees and deferred members). The impact is expected to be minimal for plans with a high proportion of retirees. The solvency liabilities could increase by as much as 5% for immature plans, i.e. plans with mainly active members.