



Pension Investment  
Association of Canada

Association canadienne des  
gestionnaires de caisses de retraite

February 25, 2021

Marshall Posner  
Chair, Designated Group  
Actuarial Standards Board  
Via email [marshallposner@gmail.com](mailto:marshallposner@gmail.com) and [chris.fievoli@cia-ica.ca](mailto:chris.fievoli@cia-ica.ca)

**Subject: Determination of Pension Commuted Values in Economic Environments Where Bond Yields are Negative**

Dear Mr. Posner,

The Pension Investment Association of Canada (PIAC) thanks the Actuarial Standards Board (ASB) for the opportunity to provide feedback on the Notice of Intent (NOI) regarding Determination of Pension Commuted Values in Economic Environments Where Bond Yields are Negative. While PIAC recognizes that both proposed options have their benefits and pitfalls, they must be further developed before a full commentary can be provided.

PIAC has been the voice for Canadian pension funds since 1977 in matters related to pension investment and governance. PIAC's members manage over \$2 trillion of assets on behalf of millions of Canadians. Our mission is to promote sound investment practices and good governance for the benefit of plan sponsors and beneficiaries.

Please see below for the answers to the questions posed in the NOI.

**1. Do you agree that the existing formula for estimated  $r_7$  should be reconsidered when interest rates are negative, and that an adjustment is in order?**

Yes, we agree that the existing formula for estimated  $r_7$  is inappropriate if  $i_7$  becomes negative and particularly if  $i_L$  approaches zero. While an adjustment may seem necessary as a result of  $r_L$  being negative over the past few months, the Bank of Canada does not intend to lower rates and thus there is a low likelihood of these circumstances actually developing in the short-term.

**2. If you agree that the formula for  $r_7$  should be modified, do you prefer the approach in paragraph 9i or in paragraph 9ii above and why? If neither, what other approach would you suggest?**

PIAC recommends that a fulsome review should be completed prior to a temporary solution being finalized. PIAC does not recommend instituting a general or permanent change during the current period of abnormal circumstances. As a temporary solution, Option 9i is preferred only because it changes the formulas under abnormal economic conditions alone. Also, seeing as recent changes to Commuted Values that were just made on December 1, 2020, constant changes to the standards may have a negative impact on the public's perception of the Canadian Institute of Actuaries, the Actuarial Standards Board, and the pension industry overall.

**3. Will a change to any of the formulas in subsection 3540 which are mentioned above, on short notice, cause problems for plan administrators to implement?**

As the ASB continues its analysis, it is important that the ASB recognizes that the changes proposed in both options will create burden for plan administrators because of the need to update pension administration systems, processes, and communications. For instance, if a change is adopted that includes negative rate inputs, the effective date will need to provide enough runway to allow for systems to be appropriately updated and for system testing to occur. Some systems may not even have the ability to perform these calculations which can become a major issue. Systems that rely on third-party providers for changes will face the most difficulty with this tight turnaround time as their providers likely have previous obligations.

**4. Do you have any other comments on the above observations and thoughts?**

PIAC agrees that these issues will need to be re-examined in the subsequent major standard review and commends the Designated Group for flagging the concerns with the current standard.

We look forward to commenting on the forthcoming exposure draft.

Yours sincerely,



Natasha Trainor  
Chair