



Canadian Institute of Actuaries

Institut canadien des actuaires

## MEMORANDUM

**To:** All Members of the Canadian Institute of Actuaries

**From:** Martin Brown, Chairperson, Committee on Pension Plan Financial Reporting  
Mel Norton, Chairperson, Committee on Actuarial Evidence

**Date:** September 29, 1995

**Subject:** Interest Rates - Transfer Values and Marriage Breakdown Calculations

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The purpose of this memorandum is to clarify the selection of interest rates to be used for transfer value purposes in accordance with the Recommendations for the Computation of Transfer Values from Registered Pension Plans (the "recommendations") and for marriage breakdown calculations in accordance with the Standard of Practice for the Computation of the Capitalized Value of Pension Entitlements on Marriage Breakdown for Purposes of Lump-Sum Equalization Payments (the "standard"). The recommendations and the standard state that, for nonindexed pensions, the interest rate for the first 15 years from the computation date should be the month-end value of the nominal rate of interest on long-term Government of Canada bonds (CANSIM Series B14013) in the second calendar month preceding the month in which the computation date falls, adjusted as described. For pensions which are fully indexed, the recommendations and the standard specify that the net rate of interest for the first 15 years from the computation date should be the month-end value of the real rate of interest on long-term Government of Canada real return bonds in the second calendar month preceding the month in which the computation date falls, adjusted as described.

At the time that the recommendations and the standard were promulgated, there was no CANSIM series for real return bonds. CANSIM series are now specified for real return bonds, and, in addition, the Bank of Canada has recently commenced to provide a CANSIM series for both types of bonds on a weekly and daily basis. Therefore, there may be some uncertainty as to which series should be used in the selection of an appropriate interest rate.

The CANSIM Rate Series available are as follows:

	<b>Nonindexed Bonds</b>	<b>Real Return Bonds</b>
Monthly	B14013	B14081
Weekly	B113867	B113911
Daily	B114022	B114018

The above committees have considered this matter, and have concluded that there is no uncertainty with respect to transfer values and marriage breakdown calculations for nonindexed pensions because the CANSIM Series B14013 is specified in the recommendations and the standard. The committees have also concluded that, for consistency with transfer values and marriage breakdown calculations for nonindexed pensions, the selection of an interest rate for fully indexed pensions should be based on the corresponding monthly series for real return bonds. This series is identified as CANSIM Series B14081.

Since this memorandum is a clarification by the chairpersons of the committees regarding the recommendations and standard, it has no effective date of application. Nevertheless, in the event that an actuary has used the daily series for the selection of the interest rate for a fully indexed pension, there is no requirement to recalculate transfer values and marriage breakdown calculations determined prior to the date of this memorandum.

The committees have also concluded that the consolidated standards of practice currently in exposure draft form will need to be modified to specify the data series for transfer values and marriage breakdown calculations of indexed pensions.

MB & MN