

Final

Standard of Practice – Post-Employment Benefit Plans

Standards of Practice Editing Committee

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6000 – POST-EMPLOYMENT BENEFIT PLANS

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6100 SCOPE

- .01 The standards in this part apply to an actuary's advice on the financial position or financial condition of a post-employment benefit plan which provides benefits other than retirement income to the plan's members and their covered spouses and dependants, whether funded or not, whether insured or not, and whether in the private or public sector, except
- a plan within the scope of part 3000 or part 5000,
 - a plan that provides benefits based on the accumulation of a defined amount during the period of employment to the extent that the benefits provided are defined by the exact amount of accumulated assets (i.e., a pure defined contribution plan). This part applies, however, to any hybrid of defined contribution and defined benefit plans,
 - a plan whose benefits are guaranteed by an insurer, and
- Social Security programs like the Canada Pension Plan and the Québec Pension Plan.
- .02 For the purpose of this part, a post-employment benefit plan is any arrangement, whether funded or unfunded, whereby a plan sponsor undertakes to provide members with benefits to which they become entitled when no longer actively at work (for example, post retirement life insurance, extended health and dental coverage, non-lifetime retirement allowance, subsidized purchases, health and dental care spending accounts, short-term and long-term disability, workers compensation, maternity or paternity leave, accumulated sick leave or vacation pay). Benefits may commence immediately or may be deferred until former employees satisfy the eligibility requirements (for example, age and/or length of service).
- .03 An actuary's advice on the financial position or financial condition of a post-employment benefits plan may relate to items such as
- its funding,
 - the application to its funding of any regulatory limitations,
 - its financial statements,
 - its accounting in the plan sponsor's financial statements, or
 - the value to be placed on the plan's assets and liabilities in a corporate reorganization or in an agreement of purchase or sale.

6200 DATA AND PLAN PROVISIONS

- | | | |
|-----|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|
| .01 | In addition to the current plan membership and asset data, information on historical claims experience, including nature of absence and benefit levels are, in most cases, necessary for the valuation. Data may come from the plan sponsor or other sources, such as insurance carriers, brokers or <u>plan administrators</u> . | 1450.01
1530.01
1710.10 |
| .02 | In identifying the data needed, the actuary would bear in mind that the pertinent benefits are those applicable during retirement or while the member is not actively at work but not yet retired. Where appropriate, the actuary would obtain claims data split by plan, by age, by location, by status (retiree, inactive, spouse, other dependent) and by type of expense (drug, hospital, etc.) | 1530.02 |
| .03 | The actuary would obtain plan documents including funding and underwriting arrangements, collective bargaining agreements and other information regarding past practices, cost sharing arrangements between the sponsors and the plan members, and communication between the plan sponsor and the members. This is used to determine the plan provisions with sufficient accuracy for the purposes of the valuation. Prior plan provisions may be needed to analyse claims information prior to the valuation date. | 1530.10
1730.08 |
| .04 | The actuary would also determine whether there were any changes in the current plan provisions or practices which were provided contractually on the valuation date, but which were scheduled to take effect at a future date. | 1730.02 |

6300 METHODS AND ASSUMPTIONS

.01 *The actuary should select an asset valuation method and an actuarial cost method which are appropriate for the purpose and circumstances of the work. The assumptions used to value liabilities should be consistent, where applicable, with the asset valuation method selected.*

.02 *The assumptions for a valuation of the liabilities of non-earnings-related post-employment benefit plans should reflect projections of the costs of such plans based on current levels and estimates of future changes in such levels until the coverage is expected to cease, if relevant to the actuarial cost method selected by the actuary.*

1730.11
1730.17

.03 *The assumptions for a valuation of the liabilities of earnings-related post-employment benefits plans should include an assumption about members' future earnings, if relevant to the actuarial cost method selected by the actuary. [Effective June 1, 2005]*

Assumption with Respect to Changes in Government Programs

.04 The actuary would usually assume the continuation of the current provisions and practices of government programs, but anticipate the effect of legislative changes scheduled to be implemented at a future date. The actuary may also wish to present different scenarios of the future. If the purpose of the valuation is such that the impact of anticipated future government changes is to be taken into account, the actuary would make appropriate assumptions in respect thereof.

1730.02
1730.28-.30

Assumption with Respect to Benefit Cost Factors

.05 In determining initial claims cost, the actuary would consider available claims experience with regards to:

1730.10-.18

claimant age, member status, coverage category and benefit type, and

credibility and relevancy to future periods and future benefit provisions.

.06 Historical claims data would be adjusted to reflect the inflation in the cost of benefits between the reference period and valuation date unless this is not appropriate for the particular plan design. Where appropriate, the actuary would also adjust past experience results to reflect nonrecurring influences such as changes in the benefits offered, significant changes in the demographics of the group, changes in government programs, or unusual claims.

.07 Available data may be of limited value or have low credibility. Where the benefit cost for former members or current retirees is not fully credible or does not reasonably represent the likely benefit cost for similar future groups, the actuary may rely on the experience of active members or other sources of data that the actuary considers reasonable and relevant. However, such data should be adjusted appropriately for expected differences between the retiree group and the group from which it is drawn.

Assumption with Respect to Claims Trend Rate

.08 The assumption with respect to future claims trend rate would usually be based on the level experienced in the recent past. The trend rate assumption would be consistent with the assumption regarding future changes in benefit programs and general economic conditions. If no change to future benefit programs is expected, then the trend rate experience would be modified by removing the impact of previous benefit program changes.

6400 FUNDING

.01 The standards in this section apply to advice on funding a plan. For the purposes of this section, advice on funding includes accumulation of assets in respect of post-employment benefits. Advice on funding does not necessarily include advice on the effect of a proposed change to a plan, and does not necessarily include advice on accounting as described in section 6500.

.02 *The actuary's advice on funding should take account of the objectives of funding and of the relationship between the plan's assets and liabilities.*

.03 *The actuary's advice on funding should take account of the plan's benefits at the calculation date, except that, subject to disclosure, such advice*

if pertinent to the terms of engagement, may anticipate an expected amendment to the plan, and

in respect of funding between the calculation date and the effective date of a pending amendment to the plan, may disregard that amendment.

.04 *The actuary's advice on funding should cover at least the period between the calculation date and the next calculation date.*

.05 *The actuary's advice on funding may allow a range of contributions and a range of target funding levels. [Effective June 1, 2005]*

Anticipated funding of expected amendment

.06 The actuary's advice on funding may, subject to disclosure, anticipate an expected amendment to the plan that increases its benefits. For example, the employer may have a regular pattern of increasing the dental fee schedules that the plan uses as its benefit limit. The actuary's advice may anticipate continued adoption of such increased limits.

Deferred funding of pending amendment

.07 If, at the calculation date, an amendment to the plan is definitive or virtually definitive, and if the effective date of the amendment is

during the period for which the report gives advice on funding, then the advice on funding up to that effective date may disregard the amendment, but the advice on funding thereafter would take the amendment into account, or

after the period for which the report gives advice on funding, then that advice may, subject to disclosure, disregard the amendment.

.08 "Effective date of the amendment" is the date at which the amended benefits take effect, as opposed to the date at which the amendment becomes definitive.

Next calculation date

- .09 The next calculation date would be the latest date which would be appropriate for the next valuation.

6500 ACCOUNTING

- .01 The standards in this section apply to advice on accounting for a plan's costs and obligations in the plan sponsor's or the plan's financial statements.
- .02 *If called for by the engagement, the actuary should select methods and assumptions for the valuation of assets and liabilities that are appropriate to the basis of accounting in the plan sponsor's or plan's financial statements, as applicable.*
- .03 *The assumptions that the actuary selects should be best estimate assumptions.*
- .04 *With respect to the assumptions, the actuary should report one or more of the following:*
the preparers of the financial statements have selected the assumptions and the actuary expresses no opinion on them,
the preparers of the financial statements have selected the assumptions and they are, or are not, in accordance with accepted actuarial practice, or
the actuary has selected the assumptions and they are in accordance with accepted actuarial practice. [Effective June 1, 2005]
- .05 The actuary would reflect the accounting standards specified by the terms of the engagement. For work in Canada, the Canadian Institute of Chartered Accountants (CICA) Handbook and other CICA guidance usually would be specified. In particular, if the actuary is aware at the time of preparation of the report of any subsequent event that makes the entity a different entity after the calculation date, the actuary would report an estimate of the financial effect of such subsequent event, or in the rare circumstance that it is impractical to make such an estimate, include a statement to that effect.
- .06 If the preparers of the financial statements select the assumptions and they are not in accordance with accepted actuarial practice, Rule 6 may apply. That is so whether or not the actuary expresses an opinion on the assumptions.
- .07 The actuary may use prior valuation results along with an extrapolation technique, rather than conduct a new valuation. If the prior valuation date is three or more years earlier than the current valuation date, the actuary would not usually extrapolate from prior valuation results.

1510.06-.07

6600 REPORTING: EXTERNAL USER REPORT

.01 *In the case of an external user report on work that includes a valuation of assets (which may be zero) and liabilities, the actuary should summarize the result of the valuation and should describe*

the source and verification of data with respect to members, plan provisions, and assets, and the date at which they were compiled,

the data with respect to members,

the plan's provisions, including cost-sharing provisions and the identification of any expected amendment that has been valued,

the method and assumptions for valuation of the liabilities,

the data used to determine initial claims costs, and

the method to value the assets, their value, and, if available, their market value and their value in the plan's financial statements, and an explanation of any differences among them.

.02 *If the valuation includes no provision for adverse deviations, the actuary should say so and say why.*

.03 *If the report gives advice on funding, then the actuary should*

if recommending contributions, then describe their determination between the calculation date and the next calculation date,

if contributions are fixed, either

report that the contributions are adequate to fund the plan, or

report the required increase in contributions, the required reduction in benefits, or the combination thereof that will address the funding shortfall,

name the next calculation date,

disclose any pending but definitive or virtually definitive amendment, the funding of which has been deferred beyond the next calculation date, and

describe and quantify the gains and losses between the prior calculation date and the calculation date.

- .04 *If the report gives advice on accounting, then the actuary should*
- describe the method and period selected in connection with any amortization of benefit costs,*
- if the valuation is an extrapolation of an earlier valuation, then describe the method and any assumptions for, and the period of, the extrapolation,*
- state whether or not the valuation is in conformity with the accounting standards specified by the terms of the engagement, and*
- provide the disclosures required under paragraph 6500.04.*

- .05 *The report should be sufficiently detailed to enable another actuary to examine the reasonableness of the valuation.*

Statements of Opinion

- .06 *If the report gives advice on funding, then the actuary should provide the following four statements of opinion, all in the same section of the report and in the following order:*
- 1. a statement as to data, which should usually be as follows: “In my/our opinion, the data on which the valuation is based are sufficient and reliable for the purpose of the evaluation.”,*
 - 2. a statement as to assumptions, which should usually be as follows: “In my/our opinion, the assumptions are, in aggregate, appropriate for the purpose(s) of...”,*
 - 3. a statement as to methods, which should usually be as follows: “In my/our opinion, the methods employed in the valuation are appropriate for the purpose(s) of...” , and*
 - 4. a statement as to conformity, which should be as follows: “This report has been prepared, and my/our opinions given, in accordance with accepted actuarial practice.” [Effective June 1, 2005]*
- .07 *Where different statements of opinion apply in respect of different purposes of the valuation, the above requirements may be modified but would be followed to the extent practicable.*
- .08 *While a separate statement as to assumptions would generally be included in respect of each purpose of the valuation, the statements as to assumptions may be combined where the statements do not differ among some or all of the valuation’s purposes. The report would clearly indicate which statement as to assumptions applies to each of the valuation’s purposes.*

- .09 While a separate statement as to methods would generally be included in respect of each purpose of the valuation, the statements as to methods may be combined where the statements do not differ among some or all of the valuation's purposes. The report would clearly indicate which statement as to methods applies to each of the valuation's purposes.

Data

- .10 The description of verification of data would include a description of the main tests of the data's sufficiency and reliability and of any assumptions made in respect of insufficient or unreliable data.

Assumptions

- .11 The description of assumptions would include a description of each nominal change to the assumptions of the prior valuation and a quantification of its aggregate effect. However, if a plan amendment prompts the actuary to change the assumptions, the actuary may report the combined effect of the amendment and the resultant change in assumptions.

Methods

- .12 The description of the method to value the assets would include a description of any change to the method of the prior valuation and a quantification of the effect of the change.
- .13 The description of the actuarial cost method would include a description of any change to the method of the prior valuation and a quantification of the effect of the change.
- .14 For a funding valuation, the description of the actuarial cost method would include a description of
- the effect of the selected actuarial cost method on the security of benefits and on the pattern of future contributions,
- the options with respect to any shortfall or excess of assets over liabilities, and
- any anticipated or deferred funding, and a quantification of its financial effect on the value of benefits and on the pattern of future contributions.