

*Fast Facts*

Settlement Cost Compared to Going Concern Funding Targets: Analysis of Pension Plans Registered in Ontario

SUMMARY

Canadian pension funding regulations require two distinct types of valuations--a going concern valuation that presumes the plan will continue to operate, and a solvency valuation that presumes the plan will be terminated with an immediate annuity purchase.

But what are the differences between a going concern funding target based on long-term investing and a pension plan's settlement liability? This paper compares the two, and provides insights that can help actuaries assess ramifications of funding towards one target or the other.

The analysis weighs data for defined benefit pension plans registered in the Province of Ontario.

HIGHLIGHTS

- The cost of plan termination and settlement usually, but not always, exceeds the funding target for ongoing operation of a pension plan. Half of the 1,114 plans analyzed had solvency liabilities at least 16.7% larger than the going concern funding target. Differences can be as much as 50% or more.
- The differences between solvency liabilities and the going concern funding target are related to the competing short-term and long-term objectives of pension funding: A pension plan that is funded on a long-term, going concern basis may not have enough money to settle all its obligations if a plan termination were to occur in the near future. A pension plan that is funded on a settlement basis may develop runaway surplus in the absence of a plan termination.
- For pensioners, differences are mostly explained by differences in discount rates. For actively employed members, the variations are broader and are also attributable to the anticipation of future salary increases and provisions for early retirement.
- A fixed rate of pension escalation does not have the same effect on settlement cost as indexation linked to the Consumer Price Index. Insurer pricing of uncapped inflation exceeds pricing of fixed escalation at the expected rate of inflation.
- There is a pattern of variations in differences between settlement costs and going concern funding targets by valuation date. Differences attributable to discount rates may not remain at the 2012–2015 levels reported in this study.

LINK TO FULL REPORT

Settlement Cost Compared to Going Concern Funding Targets:
Analysis of Pension Plans Registered in Ontario
<https://www.soa.org/research-reports/2018/settlement-cost/>

METHODOLOGY

- All defined benefit plan records provided were included, except plans with no active members or no pensioners and records that were difficult to interpret.
- The effects of the differences in discount rates, indexation and salary escalation were calculated using estimated duration.
- For indexed and partially indexed plans, the going concern and solvency discount rates reported may be real or nominal.
- Mortality differences were calculated using synthetic populations.
- See paper for details on the above points.

REPORT SPECS

- Published: February 2018
- Pages: 25
- Access: Downloadable pdf
- Research Sponsors: The Canadian Institute of Actuaries (CIA) and the Society of Actuaries (SOA).
- Author(s): Doug Chandler, Canadian Retirement Research Actuary, (SOA)
- Contents: Table of contents, introduction, how settlement differs from going concern, data, reasons for differences, analysis of pensioner liability, analysis of active plan member liability, observations, areas for further research, 10 figures, 8 tables, and 3 appendices.
- Research data: The Financial Services Commission of Ontario (FSCO) provided the data in March 2016. It included the most recent actuarial information summary and annual information return for all plans with an active Ontario registration. The analysis of pensioners and active members included a total of 1,114 pension plans. Valuation reports and forms were submitted by actuaries electronically, within nine months after valuation dates, most of which were between 2012 and early 2015. Some older reports on pension plans that may since have become inactive or wound up were included as well.



YOU MIGHT
ALSO LIKE

New CPP Enhancements: What do they mean for Canadian workers and seniors?

<https://www.soa.org/research-reports/2018/new-cpp-enhancements/>

Provisions for Adverse Deviations in Going Concern Actuarial Valuations

<https://www.soa.org/research-reports/2017/adverse-deviations-actuarial-valuations/>

Discount Rate Sensitivities in Pension Plans

<https://www.soa.org/Files/Research/Projects/discount-rate-sensitivity.pdf>



CONTACT

Steven Siegel
SOA Research Actuary
Research@soa.org
(847) 706-3500