

Commuted Values

Summary

Following extensive review and consultation, the Actuarial Standards Board of the Canadian Institute of Actuaries (CIA) introduced enhancements to its Standards of Practice, which become effective December 2020. The updated standards provide detailed guidance on the method used to calculate Commuted Values, a key component of which involves the use of select FTSE Canada Fixed Income Indexes to represent the market-based spread component for provincial and investment grade corporate bonds.



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Commuted Values

1. What is a Commuted Value?

In Canada, a member of a registered pension plan (other than a defined contribution plan) who terminates membership in the plan may receive, or have the option of receiving, their pension entitlement in the form of a transfer of the Commuted Value (CV) of their pension entitlement, instead of receiving it in the form of a monthly lifetime retirement pension payable from the plan. A CV is a lump sum that represents the present value of the expected monthly lifetime retirement pension that the pension plan member would have received from the pension plan. There are other situations in which a CV may be payable from a pension plan, such as the payment of a CV to the spouse or plan beneficiary in the event of the death of the plan participant prior to retirement.

2. What are the Actuarial Standards of Practice?

The assumptions and methods used to calculate CVs are prescribed by pension legislation. For purposes of prescribing these assumption and methods, pension legislation often refers to the [Standards of Practice](#) on pension CVs published by the Actuarial Standards Board of the Canadian Institute of Actuaries. Section 3500 of the Standards of Practice contains detailed guidance on the assumptions and methods to be used to calculate CVs.

3. How are bond and index yields used to calculate the CV interest rate assumption?

For the calculation of a CV payable from a defined benefit pension plan which does not fall within the scope of subsection 3570 of the Standards of Practice, the interest rate assumption required by the Standards of Practice is determined monthly based on bond yields as of market close of the final Wednesday of the previous month.

For CVs with valuation dates prior to December 1, 2020, the interest rate assumption is based on Government of Canada bond yields. Relevant Government of Canada bond yield information can be found on the Bank of Canada website.

For CVs with valuation dates on and after December 1, 2020, the Standards of Practice have been modified to also reflect yield information from the following provincial and corporate bond indexes when determining the monthly CV interest rate assumption:

FTSE Canada Fixed Income Indexes:

FTSE Canada Mid Term Provincial Bond Index

FTSE Canada Mid Term Corporate Bond Index

FTSE Canada Mid Term Federal Non-Agency Bond Index

FTSE Canada Long Term Provincial Bond Index

FTSE Canada Long Term Corporate Bond Index

FTSE Canada Long Term Federal Non-Agency Bond Index

4. **How can I learn more about the calculation of Commuted Values?**

A detailed description of the methodology for determining the monthly interest rate assumption can be found in subsection 3540 of the [Standards of Practice](#).

5. **How can I learn more about the FTSE Canada Fixed Income Indexes?**

FTSE Russell operates a comprehensive fixed income business in Canada which supports the market ecosystem through provision of benchmark indexes, end of day bond pricing services, and robust risk and performance analytics. Please visit the [FTSE Canada Fixed Income Indexes](#) webpage to access more information.

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