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Managing Stakeholder Expectations

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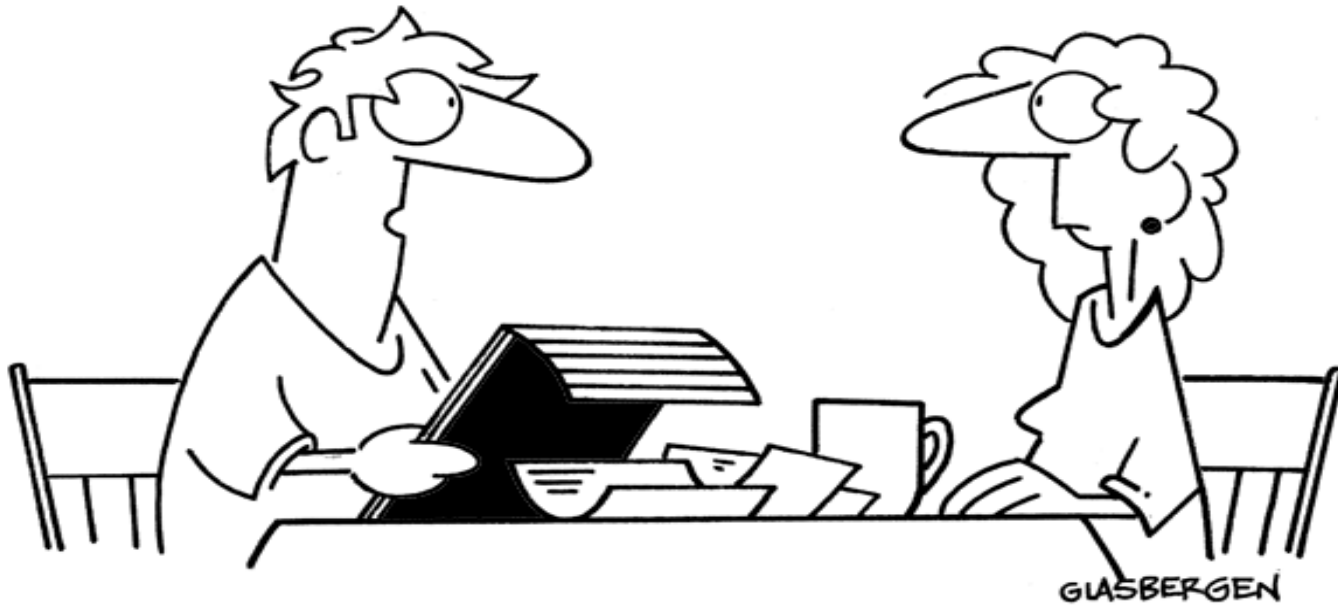
November 15, 2012

Agenda – Managing Stakeholder Expectations

- Funding Decisions for a DB Sponsor
- Convert from DB to DC?
- DC Plans are Retirement Plans
- The Future for DB and DC Plans

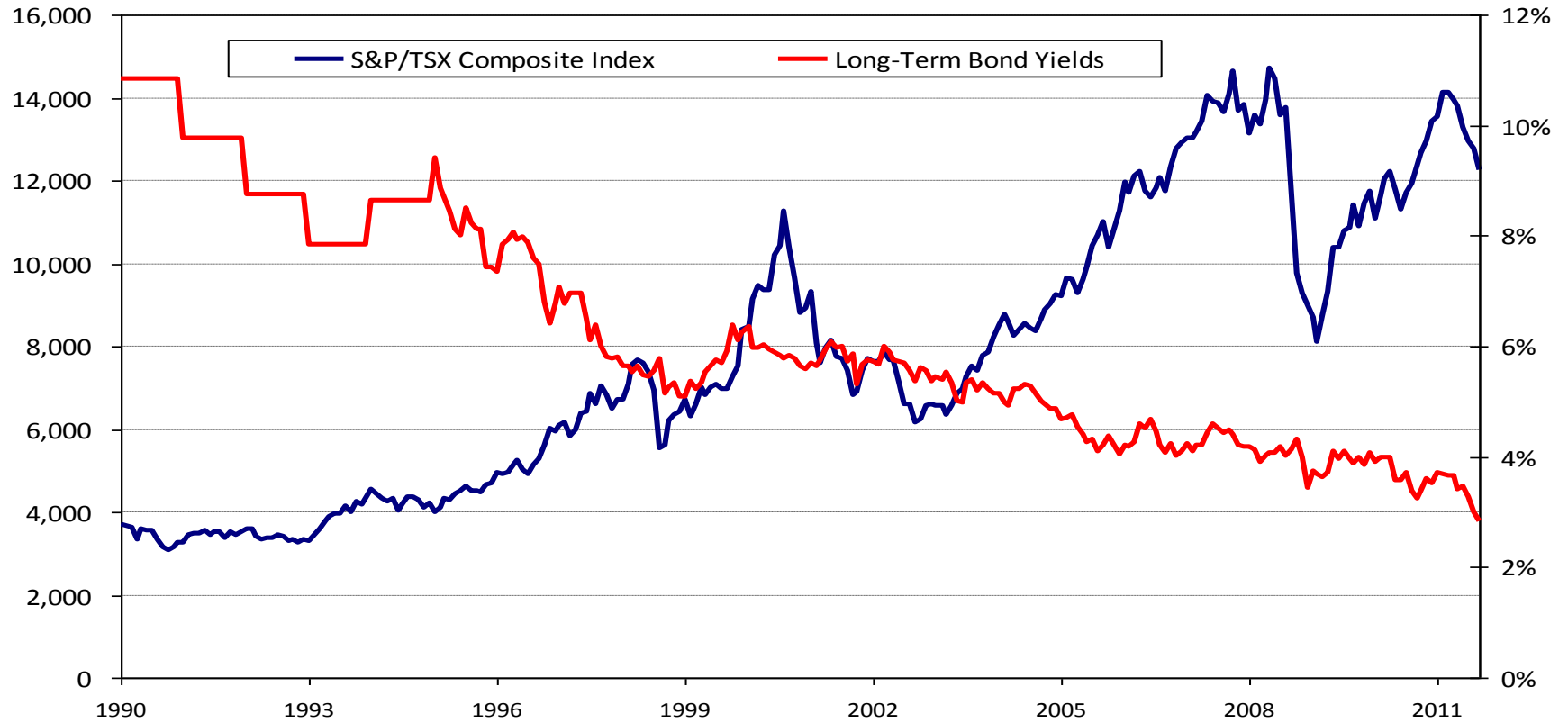
Funding Decisions for a DB Plan Sponsor

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**“We can pay off our past and save for the future,
as long as we avoid the present.”**

Current market conditions



Types of DB Funding Valuations

What is a going-concern valuation?

- It assumes the plan continues indefinitely
- Assumptions are set by the plan actuary (with input from the plan sponsor)
- It is used to determine the employer's normal cost
- Any unfunded liability is amortized (by going-concern special payments) over 15 years

What is a solvency or hypothetical wind-up valuation?

- It assumes that all liabilities are settled on the valuation date
- Most significant assumptions are prescribed based on market conditions
- It is used to determine the employer's maximum-permitted contribution
- It is used to determine the transfer ratio, which influences the timing of the next valuation
- Solvency deficits are amortized (by solvency special payments) over 5 years

What is solvency funding relief?

*Employer Contributions = Employer Normal Cost + GC Special Payments + **Solvency Special Payments***

- Second round of relief (similar to 2009) was introduced in 2012 Ontario Budget:
 - **Consolidate** existing payment schedules into new five-year schedule (*member notice required*)
 - **Extend** new solvency deficiency over ten years (*member notice, consent, and ongoing reporting required*)
- Available options for prior solvency deficiency:
 - Continue existing schedule
 - Consolidate over 2012-2016
- Available options for new solvency deficiency:
 - Amortize over usual five-year schedule (2013-2017)
 - Extend over ten-year schedule (2013-2022)

Summary of employer contributions

	2012	2013	2014	2015	2016	2017
Employer normal cost (A)	8,074,500	8,280,000	8,491,200	8,708,200	8,931,200	9,160,300
Special payments (B)						
No solvency relief	11,915,500	14,634,300	12,715,600	12,715,600	9,224,500	8,239,800
Consolidation	6,853,900	14,325,300	14,325,300	14,325,300	12,946,700	8,239,800
Extension	11,915,500	11,285,000	9,366,300	9,366,300	5,875,100	4,890,400
Consolidate + Extend	6,853,900	10,976,000	10,976,000	10,976,000	9,597,400	4,890,400
Total Employer Contributions (A+B)						
No solvency relief	19,990,000	22,914,300	21,206,800	21,423,800	18,155,700	17,400,100
Consolidation	14,928,400	22,605,300	22,816,500	23,033,500	21,877,900	17,400,100
Extension	19,990,000	19,565,000	17,857,500	18,074,500	14,806,300	14,050,700
Consolidate + Extend	14,928,400	19,256,000	19,467,200	19,684,200	18,528,600	14,050,700

Summary of employer contributions (cont'd)

Contributions for...	2012	2013	2012-2017	2018-2022	2012-2022
No solvency relief	19,990,000	22,914,300	121,090,700	53,306,300	174,397,000
Consolidation	14,928,400	22,605,300	122,661,700	53,306,300	175,968,000
Extension	19,990,000	19,565,000	104,344,000	73,916,800	178,260,800
Consolidate + Extend	14,928,400	19,256,000	105,915,100	73,916,800	179,831,900

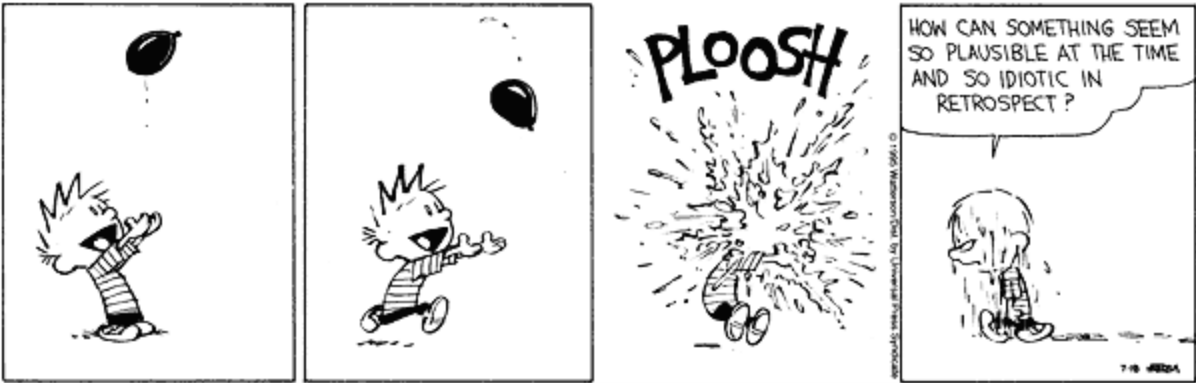
Analysis of interest rates and equity returns

Increase in interest rates needed assuming equity returns of 7.00% per annum

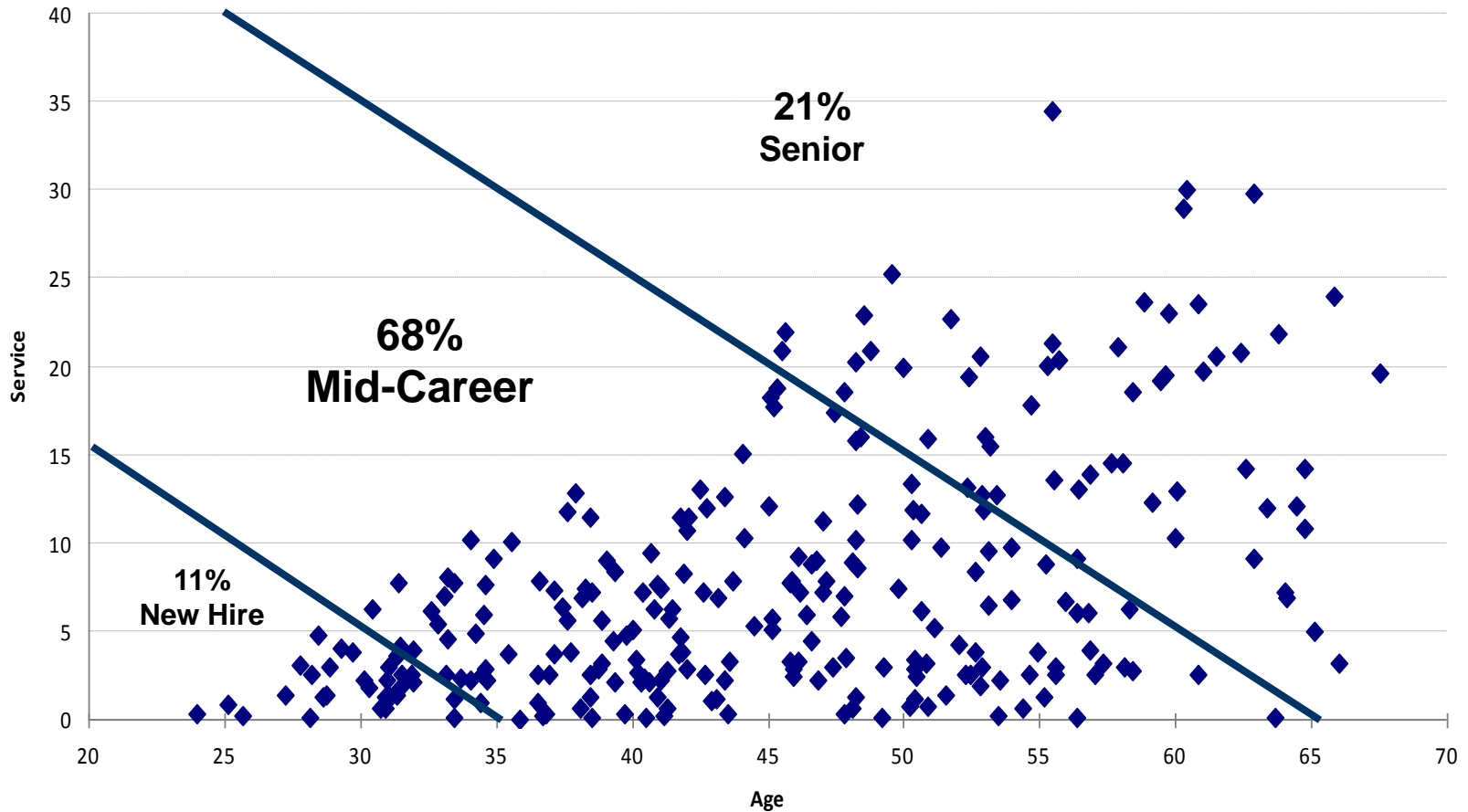
To achieve a 2017 transfer ratio of...	0.85		1.00	
Variable	Equity Returns (annual)	Δ Interest Rates (bps)	Equity Returns (annual)	Δ Interest Rates (bps)
Special payments				
No solvency relief	13.97%	190	18.11%	302
Consolidation	13.29%	175	17.45%	287
Extension	15.11%	215	19.22%	327
Consolidate + Extend	14.40%	200	18.53%	311
\$14.7m for 2013-17	12.91%	167	17.08%	278
\$20.0m for 2013-17	11.16%	130	15.38%	242
\$30.0m for 2013-17	8.17%	66	12.52%	178

Returns needed assuming no Δ in interest rates

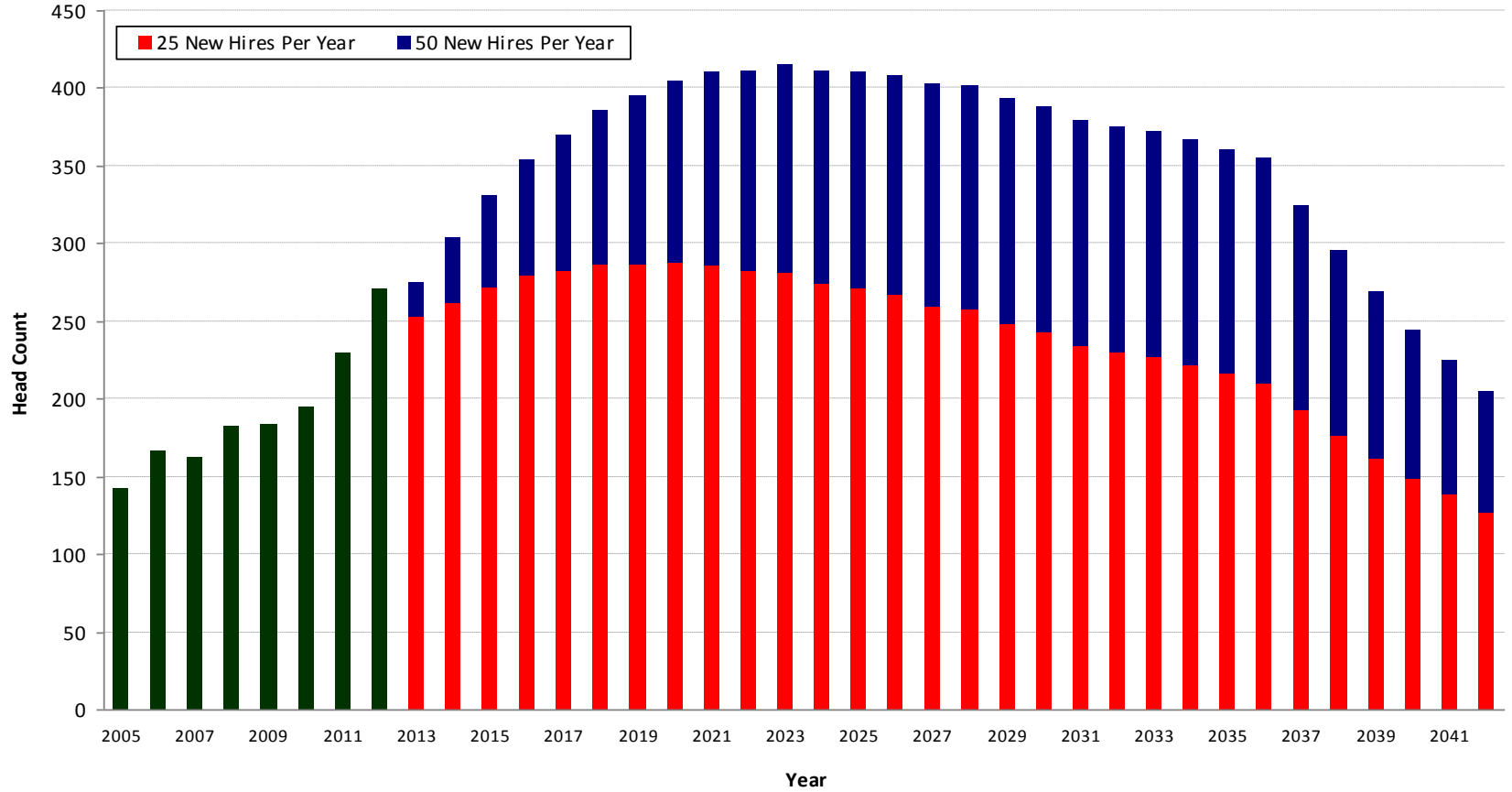
Convert from DB to DC?



Current Workforce Analysis

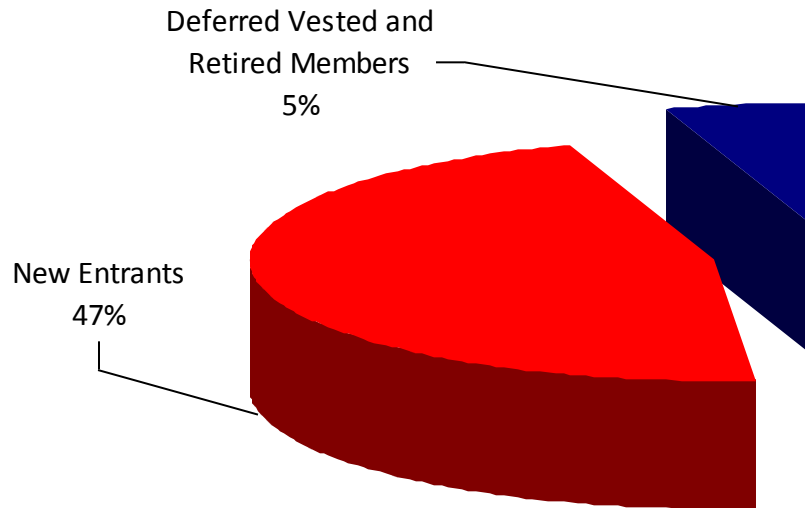


Future Workforce Projection



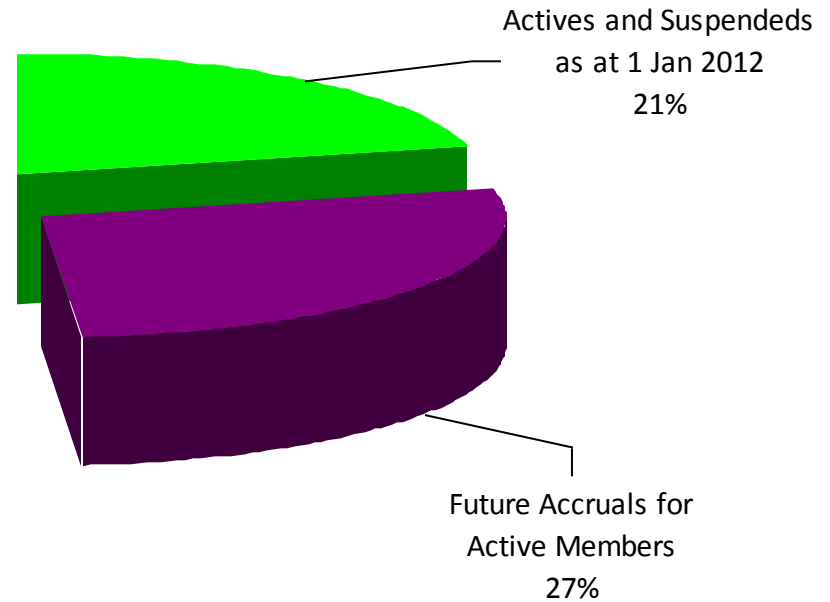
A Long-Term Cost View

- Small part of overall risk – low priority



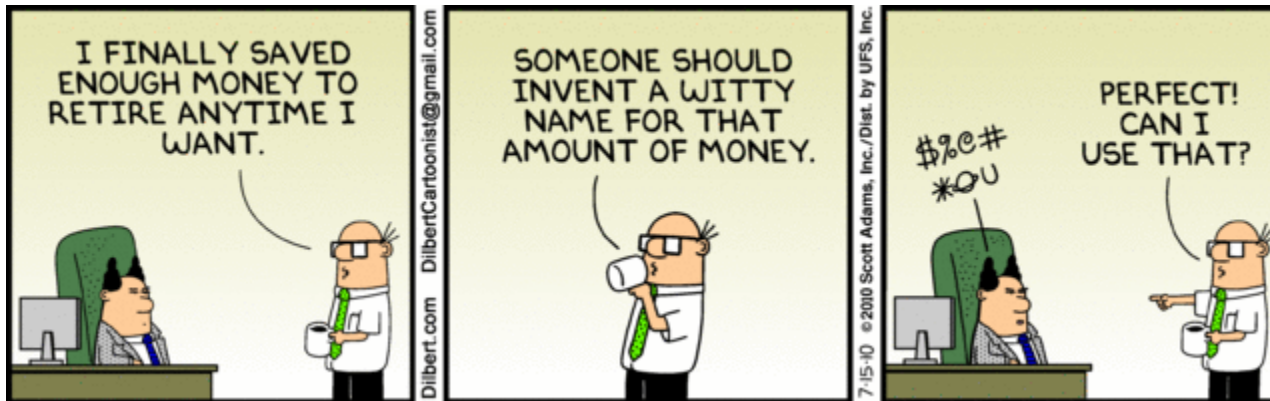
- A significant portion of future cost volatility can be controlled by plan design for new hires

- Conversion of past service option for existing DB members or annuity purchase



- Can offer existing members the choice to earn future benefits on a DC basis

DC Plans Are Retirement Plans



Economic Conditions Impact DC Members

How much does \$100,000 at age 65 buy you in monthly pension?

June 30, 2002

June 30, 2007

June 30, 2012

\$100,000

\$100,000

\$100,000

\$830 / month

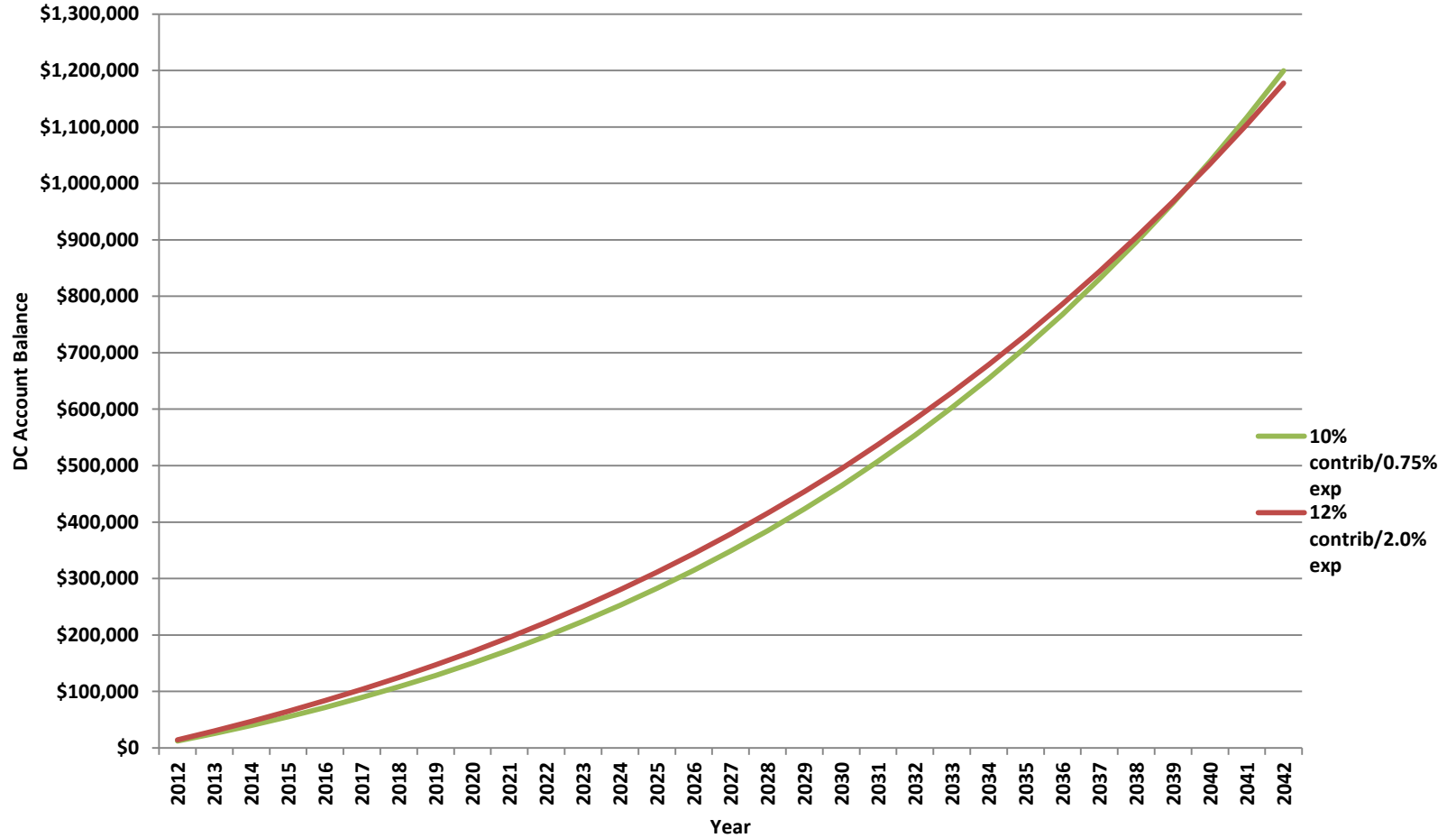
\$700 / month

\$550 / month

33% reduction from 2002



Effect of Fees on DC Account Balances



The Future – DC Plans

- Focus on Retirement Income
- Better Decision Making Support / Simplification of Member Decisions
- Increased Savings Levels
- Draw Down Phase – Great Challenge of DC Plans

The Future – DB Plans

- Pension Plans as an Attraction Driver
- Modernization of Investment Strategies
- Innovation in Plan Design – the Changing Nature of the “Pension Deal”

The Plan of the Future – Is the Best Yet to Come?

