



Reference:

Jean-Claude Ménard
Chief Actuary
Office of the Superintendent of Financial Institutions
16th Floor, Kent Square Building
255 Albert Street
Ottawa, Ontario
Canada

23 April 2008

Dear Jean-Claude

The Office of the Chief Actuary commissioned an external peer review of its 23rd Actuarial Review of the Canada Pension Plan as at 31 December 2006 (AR23). In March 2007 the United Kingdom Government Actuary's Department (GAD) was asked to select the independent Canadian actuaries who would perform the peer review and to provide an opinion on the work done by the reviewers.

To fulfil the first part of this request, I received the applications directly and assessed the resumes using weighted selection criteria. This was based on the experience of the applicant in social insurance, pensions and investment policy, as well as the applicant's qualifications and status within the Canadian Institute of Actuaries. In August 2007 I provided the Chief Actuary with a schedule of this assessment, with the twelve candidates ranked by their mark. The Chief Actuary successfully entered into an agreement with the top three highest ranking candidates to undertake the peer review.

I show below an opinion on the work done by the peer reviewers in order to fulfil the second part of the request.

Opinion on the reviewers' report

I have considered the "Review of the twenty-third actuarial report on the Canada Pension Plan" dated 19 March 2008 prepared by Messrs M Campbell, P Flanagan and T Levy. The review is of the twenty-third actuarial report on the Canada Pension Plan as at 31 December 2006 prepared by the Office of the Chief Actuary and signed by the Chief Actuary, Jean-Claude Ménard and two of his colleagues, Michel Montambeault and Michel Millette.

The terms of reference for the Review were

“The Canadian peer reviewers will review the work of the Chief Actuary in completing the 23rd Actuarial Report on the Canada Pension Plan as at 31 December 2006 (23rd Report) and, following the review, provide a report to the Chief Actuary and the Government Actuary’s Department (GAD) [of the United Kingdom]. GAD will then provide its opinion of the peer review to the Chief Actuary.

The review report should contain opinions on the following questions:

- 1) Is the professional experience of the Chief Actuary and his staff who worked on the report adequate for carrying out the work required?
- 2) Has the work been completed in compliance with the relevant professional standards of practice and statutory requirements?
- 3) Did the Chief Actuary have access to the information required to perform the valuation, and were relevant tests and analysis on the data completed as might be expected?
- 4) Were the actuarial methods and assumptions used in completing the report reasonable?
- 5) Does the 23rd Report fairly communicate the results of the work performed by the Chief Actuary and his staff?

In providing opinions on the questions listed above, the Canadian peer reviewers will also provide such recommendations as the peer reviewers deem appropriate with respect to future actuarial reports on the Canada Pension Plan prepared by the Office of the Chief Actuary.”

I consider the terms of reference of the review to be adequate so that the review addressed all the relevant issues necessary to perform an in depth review of the actuarial work underlying the 23rd report and the contents of the report itself. It was not part of the remit of my work to comment on possible additions or amendments to the terms of reference although I would be happy to do so if requested.

The review runs to 56 pages and includes the following sections

- Executive Summary
- Introduction
- Professional Experience
- Professional and statutory requirements
- Data
- Methodology
- Assumptions
- Communication of results
- Other issues and recommendations

I consider that the work carried out for the review and the review document adequately addresses the issues set out in the terms of reference. The three reviewers were able to reach agreement on all of the opinions and recommendations set out in the review report.

The reviewers found that the 23rd actuarial report was satisfactory when considered against each of the terms of reference, although they considered that the assumptions, in aggregate, were towards the high-cost side of the reasonable range. The executive summary complimented the Chief Actuary and his staff on the way the 23rd actuarial report was carried out and offered 12 recommendations which they considered would enhance future actuarial reports. These opinions and recommendations are explained in detail in the body of the report.

I have not been requested independently to review the 23rd actuarial report: that is the role of the three reviewers. Nor have I been requested independently to review the opinions of the reviewers. I do not, therefore, agree or disagree with the opinions that the reviewers set out. However, I consider that the opinions of the reviewers adequately cover all the main issues and it is reasonable for them to confirm that the actuarial report is fit for purpose.

As the reviewers comment, many of the parameters are not open to accurate prediction and therefore it is unsurprising that the reviewers have set out some differences of view on some of the best estimate assumptions. However, where the reviewers have a different view of a best estimate assumption they give the opinion that the assumption used in the 23rd actuarial report is within a reasonable range. They also give the view that the assumptions are in the reasonable range when taken in the aggregate.

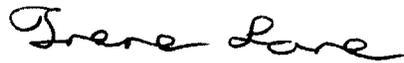
The reviewers set out 12 recommendations to be considered when preparing future actuarial reports on the Canada Pension Plan. Again, I have done no independent assessment of the recommendations made and therefore do not specifically agree or disagree with them. Generally, the nature and scope of the recommendations made by the reviewers appear to be reasonable based on the work that they have done. However, two recommendations seem to have the potential to alter the current system if implemented in the way envisioned by the peer reviewers:

- 1) If recommendation 10 is implemented by involvement of the peer reviewers at the assumption setting stage, as one of the alternatives outlined in the review suggests, there is a risk that the accountability of the Chief Actuary is altered and that the whole peer review process becomes less transparent. It would appear to imply that the peer reviewers were reviewing assumptions that they had been involved in setting: this might decrease the clarity which exists at present of the roles of the Chief Actuary and the peer reviewers.
- 2) Recommendation 12 made two recommendations.
 - a. The first part of the recommendation (concerning the constraint on assumptions used for interim reports) can already be addressed under the existing legislation. Assumptions changed because of the rule change under consideration are treated as part of the cost and nothing prevents alternative scenarios being shown if recent experience suggests significantly different assumptions (for example, a major recession).
 - b. The second part of the recommendation (to peer review interim reports) could create an extra burden (both in cost and staff time) that may not be commensurate with the benefit, since the experience of less than 3 years is

unlikely to result in a significant revision of assumptions. An alternative way of addressing this part of the issue raised by recommendation 12 would be a peer review of the interim report at the same time as the next triennial report (i.e. a sixth question is added to the terms of reference of the peer reviewers).

I hope that you find these comments helpful. Please contact me if you would like to discuss them further.

Yours sincerely

A handwritten signature in black ink that reads "Irene Lane". The signature is written in a cursive, flowing style.

Irene Lane MSc FIA

Actuary