



**Remarks by Jean-Claude Ménard, Chief Actuary
Office of the Chief Actuary
Office of the Superintendent of Financial Institutions Canada (OSFI)
to the
Society of Actuaries Annual Meeting and Exhibit

Hot Topic Session: Role of the Chief Actuary**

**New York, New York
Tuesday, October 19, 2010**

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The Role of the Chief Actuary

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Introduction

Good morning. I am pleased to be here today to talk about my role and responsibilities as the Chief Actuary of the Office of the Superintendent of Financial Institutions (OSFI) and how my office, the Office of the Chief Actuary (OCA), works to serve the public interest.

The federal government and the provinces, through the Canada Pension Plan (CPP), public sector pension arrangements and other social programs, have made commitments to Canadians and are responsible for the funding of those commitments. Some are long-term commitments and so it is important that decision-makers, Parliamentarians, and the public understand these commitments and the inherent risks they present. My office has a vital and independent role to play in this process. We provide appropriate checks and balances on the future costs of the different pension plans that fall under our responsibilities.

Roles and responsibilities

- **Funding valuations**

The mandate of the Office of the Chief Actuary is to conduct statutory actuarial valuations of the CPP, Old Age Security (OAS) program, the Canada Student Loans Program (CSLP), and federal public sector employee pension and insurance plans. These valuations estimate the financial status of these plans and programs as required by legislation.

Whenever a bill is introduced before Parliament that has a significant impact on the financial status of a public pension plan or social program falling under the statutory responsibilities of the Chief Actuary, the OCA must submit an actuarial report valuing this impact to the appropriate minister. The Chief Actuary submits these reports to either the Ministers of Finance, Human Resources and Skills Development Canada, or to the President of the Treasury Board.

All statutory actuarial reports are tabled in Parliament by the appropriate Minister. Upon request, OCA will provide communications in addition to the actuarial

report to the Minister, such as 'Questions and Answers' (Q's and A's) and elements to be included in a press release.

- **Accounting valuations**

Each year, the OCA conducts actuarial valuations in respect of the various retirement and other future benefit plans sponsored by the Federal Government for its employees and former employees. The assumptions used reflect the best estimate assumptions of the government. The Chief Actuary does not express any opinion on them. The federal government then discloses, in the Public Accounts of Canada, the actuarially determined obligations of these various plans.

- **Actuarial advice**

The OCA also provides the relevant government departments, including the executive arm of provincial and territorial governments, who are co-stewards of the CPP, with actuarial advice on the design, funding and administration of these pension and benefit plans. OCA clients include Human Resources and Skills Development Canada, Finance, Treasury Board Secretariat, Public Works and Government Services, National Defence, Veterans Affairs, the RCMP and Justice Canada.

The most well-known plan that the OCA evaluates is the Canada Pension Plan since its participants include most working Canadians. One of OCA's most important clients is the Treasury Board Secretariat (TBS) since the TBS is the plan sponsor for all public sector pension and benefit plans.

Maintain objectivity

- **OCA is independent even though it is housed within OSFI**

By housing the OCA in the Office of the Superintendent of Financial Institutions (OSFI), it is independent and outside of the departments that use its services, thereby ensuring that the Chief Actuary can exercise independent and impartial professional judgment in discharging its mandate. The reports produced by the OCA fall under the mandate of various Government departments. Thus, it is important to note that when work is being done for one client, such as the Department of Finance or Human Resources and Skills Development Canada, the work is solely for them and is not shared with other client departments.

The current environment for the retirement income system puts an additional onus on the OCA to be, and seen to be, fully accountable and professionally independent. While the Chief Actuary reports to the Superintendent, he is solely responsible for the content and actuarial opinions in reports prepared by the OCA, and is solely responsible for the actuarial advice provided to the relevant government departments.

- **OCA adheres to professional actuarial standards**

The OCA maintains its credibility and the quality of its work by adhering strictly to professional actuarial standards. The Chief Actuary and all Fellows and Associates are members of the Canadian Institute of Actuaries (CIA) and are subject to the CIA Rules of Professional Conduct. The statutory actuarial reports are prepared by OCA Fellows of the CIA and co-signed with the Chief Actuary to enhance the internal quality control process.

- **Independent peer panel reviews the statutory CPP actuarial reports**

Another example of the OCA's commitment to remaining objective is that the statutory actuarial reports on the Canada Pension Plan are reviewed by an independent panel of peers. Prior to the 21st CPP Actuarial Report, the independent peer review panel was selected by OSFI. However, due to a heightened sensitivity to the need for independence in this process, we felt that the selection of the panel should be independent of OSFI. As suggested by the Auditor General, we entered into an agreement with the United Kingdom Government Actuary's Department (GAD) to select the independent Canadian actuaries to perform the peer review and to provide an opinion on the work done by the reviewers upon completion of the review. GAD has selected the independent peer review panel for the last two actuarial reports, the 21st and 23rd, and the upcoming 25th report.

- **Chief Actuary must confirm OCA work on an annual basis to the Auditor General**

The Auditor General, in accordance with Generally Accepted Auditing Standards (GAAS), is required to obtain sufficient and appropriate audit evidence to support the content of the Chief Actuary's work. In connection with the audit of the summary of financial statements of the Government of Canada, the Chief Actuary is asked every year to confirm that the Government is relying on his work as audit evidence for reporting its liabilities relating to pension, severance benefits, health and dental post-retirement benefits, workers' compensation benefits and Veterans' future benefits.

The Chief Actuary is also to confirm to the Auditor General that the work performed is in accordance with the Rules of Professional Conduct of the CIA and that the Chief Actuary and his associates are in good standing with the CIA, the Chief Actuary had adequate access to data and he is satisfied that the data used to estimate the pension obligation was sufficient and reliable for valuation purposes.

- **Pressure from involved parties (Plan sponsor, Plan administrators, investors)**

When setting key assumptions for actuarial valuations, the OCA holds discussions with the appropriate departments and listens to their opinions and suggestions. Sometimes changing an assumption (such as lowering the

valuation discount rate) may not be well-received by the government since it could result in increased costs. However, at the end of the day, it is the Chief Actuary who is signing the report and has the final say on the assumptions used. We have appropriate controls in place to ensure independence of the OCA.

When considering proposed plan amendments, sometimes more than one government department may become involved, each with its own mandate. For example, the plan administrator may be advocating benefit improvements, while another department may be concerned about the financial implications of such improvements. The OCA is a neutral party whose sole responsibility is to provide reliable cost estimates.

Deliver bad news

Probably the worst news that ever had to be delivered by the OCA was the looming exhaustion of the CPP fund. In the December 1993 (15th) Actuarial Report on the CPP, the Chief Actuary projected that the pay-as-you-go contribution rate (expenditures as a percentage of contributory earnings) would increase to 14.2% by 2030. It was further projected that if changes were not made to the Plan, the reserve fund would be exhausted by 2015. Reports prior to the 15th also stated that the fund would be exhausted; however, it wasn't until the 15th Report that the stakeholders decided to take action and reform the CPP in order to restore financial sustainability.

The CPP has controls in place (default provisions) to modify the Plan in the event of the minimum contribution rate reaching or exceeding the legislated contribution rate. Ministers must decide in between reports if any changes to the Plan are required. The CPP is reviewed over a three-year period:

- In year 1, the actuarial report is prepared by the OCA and is tabled before Parliament by December 31.
- In year 2, possible modifications and/or improvements to the Plan are examined and discussed.
- In year 3, modifications to the Plan are finalized and the legislative approval process begins.

The recent economic downturn hit during the second year of the last review. The stakeholders asked the OCA what the impact of the downturn would be on CPP. For several reports, the OCA has been proactive by including sensitivity tests as a means to communicate potential risks to the plans and the impact on the financial status. That way, if something happens between statutory reports, stakeholders or clients can be referred to the most recent report and realize that the OCA has considered some of these risks and already analyzed their impact. As such, the 23rd CPP Actuarial Report included an Economic Half-Cycle sensitivity test. This test looked at a sudden increase in the unemployment rate and a drop in real wage increases. The impact of significant investment losses was analyzed individually in a separate test. The OCA evaluated and showed

the financial impact of the recent economic downturn in the 24th CPP Actuarial Report, tabled before the House of Commons when Bill C-51 was tabled.

When necessary, the Chief Actuary delivers bad news to the appropriate Government department, verbally, and then in the next actuarial report. The Chief Actuary may be asked to appear before various Senate and House of Commons Standing Committees to discuss and/or answer questions on any of the Plans the OCA evaluates.