

Reporting and Accountability of the Office of the Chief Actuary (OCA)

Mission

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 have taken on emanated responsibility for the financing of these commitments. Some are long-term and it is important that decision-makers, Parliamentarians and the public understand these and the inherent risks. The Office of the Chief Actuary (OCA) has a vital and independent role to play in this process. The OCA provides checks and balances on the future costs of the different pension plans under its responsibilities.

Mandate

The mandate of the Office of the Chief Actuary is to conduct statutory actuarial valuations of the CPP, Old Age Security (OAS) program and federal public sector employee pension and insurance plans. These valuations estimate the financial status of these plans and programs as required by legislation. Since 2001, the OCA has also been responsible for undertaking the actuarial review of the Canada Student Loans Program.

The OCA prepares actuarial reports as required by legislation including reports on proposed changes to the CPP introduced in Parliament. The Chief Actuary submits these reports to the ministers of Finance, Social Development, Human Resources and Skills Development and to the President of the Treasury Board. The OCA also provides sound actuarial advice to these departments that assist them in the design, funding and administration of these programs.

Reporting

The OCA was created to provide actuarial and other services to the Government of Canada and provincial governments who are CPP stakeholders. It was established within the Office of the Superintendent of Financial Institutions (OSFI) as a separate unit and, while the Chief Actuary reports to the Superintendent, he or she is solely responsible for the content and actuarial opinions of work in the reports prepared by the OCA.

Strategic Objectives

The OCA mission and mandate are central to its contribution to Canadians and Canada's retirement income system. The OCA strives to provide actuarial advice to enhance public confidence in the retirement income system. It monitors and communicates future demographic and economic risks by submitting regular statutory actuarial reports. These reports are designed to inform Members of Parliament, representatives of client departments and decision-makers thereby contributing to greater public confidence in the management of the programs.

Business Activities

The OCA provides actuarial advice to the Government of Canada for a variety of programs. The OCA estimates long-term expenditures of the OAS program, benefits, revenues and liabilities of the CPP and federal public sector pension and insurance plans. The OCA has a statutory responsibility to prepare actuarial reports on the financial status of these plans for tabling in Parliament as required by legislation. Since 2001, it also undertakes the actuarial review of the Canada Student Loans Program by evaluating the portfolio of loans and the long-term costs of the program.

Whenever a Bill is introduced before Parliament that has significant impact on the financial status of a public pension plan falling under the statutory responsibilities of the Chief Actuary, the OCA must submit an actuarial report valuing this impact to the appropriate minister. While the same legislative requirement does not yet exist for some other programs, the managers of these programs have indicated they would like to have such requirements.

The OCA also provides actuarial information on the CPP to provincial governments, who are the Plan's co-stewards. Major changes to the Plan benefits and contribution rates can come into effect only with the accord of two-thirds of the provinces with two-thirds of the population. The federal and provincial governments, as co-stewards of the CPP, took meaningful steps in 1997 and 1999 to strengthen the transparency and accountability of actuarial reporting on the CPP. In 1997, federal and provincial governments agreed that for greater public accountability, the frequency of actuarial reporting on the CPP should be increased from every five years to every three years. The CPP legislation was also changed to require federal and provincial ministers to review the Plan's finances every three years instead of every five years. These changes have contributed to strengthened stewardship and accountability of the Plan.

Client Liaison

Under the *Canada Pension Plan* the Chief Actuary of OSFI has the responsibility to conduct a triennial actuarial review of the CPP and, in accordance with the *Public Pensions Reporting Act*, of the pension plans established under the following Acts:

- (a) the *Canadian Forces Superannuation Act*;
- (b) the *Members of Parliament Retiring Allowances Act*;
- (c) the *Public Service Superannuation Act*;
- (d) the *Royal Canadian Mounted Police Superannuation Act*;
- (e) the *Judges Act*; and
- (f) the *Old Age Security Act*.

The OCA must be supportive to plan members, thereby serving the public interest, by ensuring good governance of the plan, appropriate disclosure in the actuarial report and contributing to the overall accountability of the plan sponsor to members.

The Chief Actuary enters into Memorandum of Understanding (MOU)'s with each client department. The purpose of a MOU is to define the principles governing the costs of services

to be charged to the program and/or client department by OSFI for the work done by the OCA.

The MOU signed by federal, provincial (except Québec) and territorial governments in January 1999 established principles for the provision of actuarial services relating to the CPP to executive branches of the federal, provincial and territorial governments by the Chief Actuary.

In the interest of fostering informed public commentary on the CPP, a policy for supplying actuarial information and services on the CPP was developed for the public or third party organizations, outside of the executive arm of government, to provide special information or actuarial work related to the CPP on a fee for service basis. This policy brings transparency to the existing practice since information provided to requestors is publicly available.

The Consultation Committee of the OCA, which is composed of several client department representatives, discusses and reviews the OCA's strategic plan, business plan and operating budget. This Committee provides a means whereby the Superintendent of Financial Institutions can consult and discuss issues pertaining to the relationship management of the OCA with client departments using the actuarial services of the OCA.

The Superintendent will, as necessary, consult with other departments about the performance of the OCA in meeting their needs under the MOU and factor that into the performance of the OCA.

Key Risks and Threats

Consistent with its mandate and mission, the OCA strives to promote financially-sound federal government pensions and other programs. The statutory triennial actuarial reports must be prepared and tabled on time. All of the following activities play a crucial role in the delivery of high quality actuarial reports: gaining access to the required information, challenging the administration on the quality of data, ensuring reasonableness of the assumptions and methods used, communicating the results of the work performed by the Chief Actuary and his or her staff, complying with the relevant professional standards of practice, and validating of the accuracy of pension liability estimates and sensitivity test results using the management's economic assumptions.

The current environment for the retirement income system is putting an additional premium on being, and being seen to be, fully accountable and professionally independent. Credibility in this regard is particularly important because of its focus on the quality of the Actuarial Opinion provided in the actuarial reports the OCA publishes. The reports contain an Actuarial Opinion on the methodology employed, the quality of the data and the appropriateness of the assumptions used.

By housing the Office of the Chief Actuary in the Office of the Superintendent of Financial Institutions, it is independent and outside of the departments that use its services, thereby ensuring that the Chief Actuary can exercise independent and impartial professional judgement in discharging its mandate. The housing of the OCA within OSFI, which is the

primary regulator of federally chartered financial institutions and federally administered pension plans, allows the two Offices to share certain administrative costs. It also allows for greater coherence between the work of the Superintendent and the Chief Actuary. As a public servant, the Chief Actuary serves the executive arm of government with objectivity and impartiality. The current arrangement ensures that the executive arms of the federal and provincial governments are able to move forward rapidly with the work required and seek the consensus necessary. The current arrangement also ensures that the OCA is able to fulfil its mandate in a cost-effective manner.

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, which identify the professional rules and ethical standards with which a member must comply and thereby serve the public interest. The quality of the OCA work is of utmost importance. The OCA maintains credibility by adhering strictly to professional actuarial standards. Peer reviews are conducted as part of an internal quality control process. The statutory actuarial reports are prepared by OCA Fellows of the CIA and are co-signed with the Chief Actuary to enhance the internal quality control process.

In 1999, federal and provincial finance ministers took additional steps to strengthen the transparency and accountability of actuarial reporting on the CPP. They endorsed regular peer reviews of such reports and consultations by the Chief Actuary with experts on the assumptions to be used in actuarial reports.

The most recent independent review of the statutory actuarial report on the CPP confirmed that the work of the Chief Actuary meets professional standards of actuarial practice and is of sound quality. The independent review also confirmed that the OCA has adequate resources and access to data and other information required to fulfill its mandate. To ensure the quality of future actuarial reports, the Chief Actuary continues to consult with experts in the fields of long-term demographic and economic projections in the preparation of actuarial reports. The high professional esteem of the Office was evidenced by OCA being asked to undertake the first independent peer review of the actuarial report of the Government Actuary on the Great Britain National Insurance Fund.

It is essential that the OCA continues to have the necessary human resources skill sets in order to meet its mandate. This requires ongoing assessments of the availability and adequacy of skills relative to current and future needs, the development of human resources initiatives, policies and programs to fill identified gaps and the maintenance of an organizational climate that motivates people to succeed. While OCA believes it is adequately positioned to deal with the current situation, new major initiatives are constantly being sought to prepare for future challenges. In addition, it is essential that the OCA maintains and improves its infrastructure such as the valuation models that were developed for the CPP/OAS, the CSLP and for all public sector pension plans.

Major Objectives/Activities for the 2004-2007 Planning Period

Objective/Activity 1: Provide expert and timely advice to the stewards of the Canada Pension Plan, i.e. the federal and provincial governments, and to the federal government with respect to other programs such as Old Age Security, Canada Student Loans and various federal public sector workplace pension and insurance plans.

Expected results:

- Enhance the value of actuarial reports by developing more sophisticated valuation techniques, such as the application of stochastic modelling in the sensitivity tests.
- Enhance the value of actuarial reports by implementing recommendations made by independent actuaries who reviewed either the most recent CPP actuarial report or the actuarial reports of public sector pension plans.
- Enhance the value of actuarial reports by organizing seminars to broaden OCA's sources of advice and opinions concerning the assumptions made in preparing various actuarial reports.
- Produce regular actuarial studies to support policymakers in developing and analysing various policy options in the context of plan reforms.
- Participate actively in interdepartmental projects or government initiatives related to the aging of the Canadian population.
- Participate actively in the technical committee of the International Social Security Association (ISSA) on financial, statistical and actuarial studies.
- Participate actively in different parliamentary committees to promote awareness and understanding of the issues covered in our actuarial reports to our clients.

Objective/Activity 2: Continuously improve key elements of the OCA's human resources processes and capability.

Expected results:

- Enhance performance management tools to assess whether its human resources demonstrate required skills, knowledge and/or experience necessary for the organization to deliver on projects and priorities.
- Develop and implement alternative resource strategies.
- Develop and execute effective staff development programs aligned with the OCA's strategies (including formal training, mentoring and knowledge transfer initiatives).
- Enhance succession planning processes.
- Review and strengthen human resources initiatives, including competencies, the performance management program and compensation review.