

Accountability Framework of the Office of the Chief Actuary

Mission

The federal government and the provinces, through the Canada Pension Plan (CPP), public sector pension arrangements and 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 and social programs 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 (CSLP).

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 the Ministers of Finance, Human Resources and Social Development, and to the President of the Treasury Board.

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 plans. OCA clients include Human Resources and Social Development, Finance, Treasury Board Secretariat, Public Works and Government Services, National Defence, Veterans Affairs, the RCMP and Justice Canada.

Professional Accountability

Under the *Canada Pension Plan* section 115, the “Chief Actuary of OSFI” has the responsibility to conduct a triennial actuarial review of the CPP. In addition, the Chief Actuary shall, whenever a Bill is introduced in the House of Commons that has a significant impact on the financial status of the CPP, prepare a supplement to the most recent triennial actuarial report.

As defined in the *Public Pensions Reporting Act*, the Chief Actuary means the “Chief Actuary of OSFI”. In accordance with that Act *under section 6*, the Chief Actuary also has the responsibility to conduct a triennial actuarial valuation of the pension plans established under the following acts:

- (a) *Canadian Forces Superannuation Act*;
- (b) *Members of Parliament Retiring Allowances Act*;

- (c) *Public Service Superannuation Act*;
- (d) *Royal Canadian Mounted Police Superannuation Act*;
- (e) *Judges Act*; and
- (f) *Old Age Security Act*.

The OCA was created to provide actuarial and other services to the Government of Canada and provincial governments who are CPP stakeholders. 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 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 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 solely responsible for the actuarial advice provided to the relevant government departments, including the executive arm of provincial and territorial governments, who are co-stewards of the CPP.

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.

The Auditor General, in accordance with GAAP, 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.

Client Liaison

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 Chief Actuary enters into a Memorandum of Understanding (MOU) with each client department. The purpose of an 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 and to provide the Chief Actuary, in a timely manner, with the data needed for actuarial studies to ensure that all data provided is reliable, complete and accurate.

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 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.

Reporting Controls

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 arm of the federal and provincial governments is 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.

As part of OSFI, the OCA would adopt management processes that are followed by OSFI, such as Enterprise Wide Risk Management, 360 degree feedback on managers, preparation of an annual strategic plan looking out 3 years, and development/maintenance of performance measures. As well, OSFI has an Internal Audit unit, and an Audit Committee. Effective the first quarter of 2006, OSFI appointed 4 external members to its audit committee, who serve with the Superintendent. The independent members also represent a majority of the members of the Committee. OSFI's Internal Audit unit has a risk based audit plan which is posted on OSFI's web site. The Internal Audit unit would include the OCA in its audit universe. It would include the OCA in generic audits it conducts (such as audits of hiring practices across OSFI). OSFI's Internal Audit unit might also do a targeted audit covering the OCA's operations alone, as it does for other areas of OSFI. Any such audits would take into account the extensive audit processes that OCA is already covered by, such as peer review of the CPP and audits by the Office of the

Auditor General. As is normal practice, results of audits directed by OSFI's Internal Audit unit would be reported to OSFI's Audit Committee and, ultimately, posted on OSFI's web site.

As per the proposed Treasury Board Policy on Internal Control, going forward, the Superintendent, as Accounting Officer, would sign the *Statement of Internal Control* that the effectiveness of the system of internal control for the OCA has been reviewed. The CFO would confirm the effectiveness of Financial Controls.

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 and the federal public sector retirement system for which the Canadian taxpayer is a stakeholder. 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 Environment

The Canadian retirement income system includes diversification of both sources of income (private and public pensions) and funding approaches. A mix of full funding (RPP/RRSP), partial funding (CPP/QPP) and pay-as-you-go funding (OAS/GIS) is well recognized for its capacity to adapt to changing conditions, including the aging of the population. The combination of Old Age Security (OAS), the Guaranteed Income Supplement (GIS), the compulsory contributory pension plans (CPP and QPP), private employer pension plans and individual saving plans has contributed significantly to reducing poverty among seniors over the past three decades.

Canada has set in place a public pension system that is expected to be sustainable and affordable well into the future in the face of changing demographic conditions. Ongoing review of the system, including actuarial studies performed by the OCA on various public pension programs, will help to ensure this remains the case.

The OCA is continuously involved in preparing various experience studies and research covering a wide range of social security, demographic and economic issues that may affect the financial status of pension or benefit plans. Some of these studies also serve to support policymakers in developing and analysing various policy options in the context of plan reforms. The information presented in these studies could benefit private sector organizations that evaluate social security or private pension plan schemes.

Enterprise Risk Management

Consistent with its mandate and mission, the OCA strives to promote financially-sound federal government pension plans 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 actuarial opinions on the methodology employed, the quality of the data and the appropriateness of the assumptions used.

Demographic Environment

The OCA provides in its actuarial reports a best-estimate of the future size and composition of the population of Canada. Specifically, the projections provide long-term estimates of the number of births, deaths, immigrants, emigrants, and age and sex composition of the Canadian population. Given the variability in the key determinants of the size of the population (fertility, mortality and migration) and the length of the projection period, there are risks that actual experience will not develop exactly in accordance with the best-estimate assumptions. As such, sensitivity tests are performed in actuarial reports, showing the financial impacts of younger and older population scenarios.

Economic Environment

The North American economy is slowing but still growing. With uncertainty about whether the credit cycle has peaked, low unemployment and benign inflation numbers, economic analysts have been hard-pressed to generate economic forecasts. The general consensus is that expansion will continue through 2007, but at a moderate pace, although there are risks to consider and some indicators of possible changes to come.

Under the OCA best-estimate scenario, a moderate but sustainable growth in the economy is assumed to persist throughout the projection period. Over the long term, economic cycles have little impact on contribution rates as long as, on average, the ultimate assumptions are realized. The economic impact on the contribution rate depends primarily on the assumed pattern of rates of return on investments and real wages. As such, low and high economic sensitivity tests are performed in actuarial report, showing the financial impacts it would have on the long-term contribution rate.

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.

Priorities for the 2007-10 Planning Period

OCA has identified several priorities and projects that will address situations that the organization will face in the current planning period. During the current year, OCA will introduce new initiatives, such as improving data gathering from the CPP Records of Earnings, acquiring additional data from the Canada Revenue Agency and remaining aware of discussions about the convergence of financial economics and traditional actuarial practice. OCA will also introduce new processes that are followed by OSFI, such as Enterprise Risk Management and the preparation of an annual strategic plan looking 3 years forward.

As a result of an increasing risk of potential changes in the demographic and economic environment, OCA must have the resources in place to monitor and evaluate, in its actuarial reports, the potential risk that actual experience will not develop exactly in accordance with the best-estimate assumptions on the future size and composition of the population of Canada and the future growth in the economy. OCA carries out sensitivity tests showing the financial impact of younger and older population scenarios as well as low and high economic tests showing the financial impact on the long-term contribution rate. This is essential to meeting OCA's key ongoing responsibility of accurate risk assessment through our statutory actuarial reports that inform Parliamentarians, client departments and decision-makers.

Major Projects – Canada Pension Plan/Old Age Security

- 23rd CPP Actuarial Report
- 8th OAS Actuarial Report
- Implementation of recommendations made by the Independent Reviewers
- Actuarial advice to CPP Federal-Provincial Committee
- Actuarial services to HRSD and CPPIB
- Preparation for the CPP inter-disciplinary seminar
- Publication of intervaluation studies (Optimal Funding, Actuarial Study No. 6 and Child Rearing Dropout Experience Analysis, Actuarial Study No. 7)
- CPP and OAS/GIS 5-year monthly benefit projections (June and December)
- Various Expert Witness Reports
- Quarterly reports on actuarial services for CPP in response to requests from Provinces, Finance Canada, HRSD and other sources
- Actuarial work to the International Social Security Association-Technical Commission on Statistical, Actuarial and Financial Studies
- Special Studies on CPP/OAS as requested by International Social Security Association, International Actuarial Association, or Society of Actuaries - Social Security Committee

Major Projects – Public Sector Pension Plans

- Actuarial Report on Members of Parliament Pension Plan
- Actuarial Report on Judges Pension Plan
- Actuarial Report on Public Service Pension Plan
- Actuarial Report on Public Service Death Benefit Account
- Actuarial Report on Royal Canadian Mounted Police Pension Plan
- Actuarial Report on Royal Canadian Mounted Police – Dependants' Pension Fund
- Actuarial Report on Canadian Forces Pension Plan
- Actuarial Report on Regular Forces Death Benefit Account
- Annual actuarial reports for the Public Accounts of Canada, namely Pension Plans liabilities, severance liabilities, workers' compensation, post-employment benefits (Health and Dental), Veterans benefits and Veterans benefits to RCMP
- Actuarial services provided to Crown Corporations for accounting purposes
- Actuarial work for the Pension Advisory Committees and the PSPIB
- Actuarial valuation of the Reserve Force Pension Plan (Preliminary report prior to the coming into force)
- Actuarial services to the Department of Justice and to the Commission of judicial compensation and benefits
- Actuarial services to Veterans Affairs Canada
- Create, update and maintain modules and software used by the pension plan administrators regarding the Transfer Value and Optional Survivor Benefits, *Pension Benefits Division Act*
- Reciprocal Transfer Agreements and arrears calculations
- Actuarial advice to Treasury Board Secretariat on different insurance and disability plans

Major Projects – Canada Student Loans Program

- Annual actuarial report on the Canada Student Loans Program sent to Ministers
- Actuarial advice in conjunction with legislative changes to *Canada Student Loans Act* and/or *Canada Student Financial Assistance Act*
- Annually provide to HRSDC the methodology and results for the different provisions and allowances for bad debt for the Public Accounts