

February 19, 2012

Mr. Azim Hussain  
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**Re: Valuation of the Judicial Annuity**

My comments on Mr. Sauvé's letter of February 14, 2012 are as follows:

1. I note that the value given by Mr. Sauvé in the last complete paragraph of his letter (24.7%) is very close to my number (23.8%).
2. A recalculation of the annuity value using the method of determining age used by Mr. Sauvé (see top of page 2 of his letter) increases my value from 23.8% to 24.4% bringing our numbers even closer.
3. I endorse Mr. Sauvé's comment in the last paragraph of page 1 where he discusses the use of different actuarial methods when the valuations are for different purposes and also with his comment that the methodology that is currently in use tends to be stable from year to year.
4. I agree that we did not have data that enabled the development of an experience based disability table. My use of 50% of the OSFI table was to reduce some of the margin built into the OSFI basis, which was appropriate for a funding valuation but not for this exercise.
5. In Mr. Sauvé's fifth complete paragraph on page 3 he quotes me as saying that the "value should be made as part of a broader benchmarking exercise including group insurance benefits". Paragraph 7 of my letter of January 27, 2012 seems to have been misunderstood. It is my opinion, as stated in my letter, that the decision as to whether the disability benefits should be included in the pension annuity value is a matter to be agreed between the parties. It is not an actuarial decision. I note in my letter that other benefits, such as group insurance, are excluded but I do not suggest, nor have I suggested, that there should be any "broader benchmarking exercise".
6. Mr. Sauvé develops a "market value" basis which he suggests (on page 6) is for disclosure purposes only, noting that it could fluctuate widely over time. I do not see a definition of market value but it appears to be based on the use of current interest rates rather than an assumption as to long-term rates. As Mr. Sauvé points out, at the top of page 6, current rates are used in solvency valuations and transfer value calculations. These calculations are used when a settlement is taking place or to calculate the value if a settlement were to take place. He goes on to say that there is "considerable merit" in using "best estimate long term assumptions" for the valuation of the judicial annuity and quotes the Canadian Institute of Actuaries Standards of Practice in support of this point. He ends (at the bottom of page 6) with the statement that "there is considerable merit in making stakeholders aware of the market value of the judicial annuity based on current interest rates even if we know that such values could fluctuate widely over time". I do not disagree with disclosing the market value, provided that the disclosure makes clear that the results of such a calculation are volatile. There is

little usefulness of the market value in the present case. We are not performing a valuation of the judicial annuity for the purpose of a settlement. As such, there is no compelling reason to depart from the "best estimate long term assumptions" that are more stable than the market value and consistent with CIA Standards of Practice.

7. At the end of his letter, Mr. Sauvé provides a table containing scenarios which he suggests constitute a range of acceptable assumptions for the valuation of the judicial annuity. For the reasons set out in paragraph 6 above I do not agree that the market value scenario constitutes an acceptable method.
8. The OSFI scenario is for funding or accounting purposes (see page 1 of Mr. Sauvé's letter). It does not rely on best estimate assumptions. As Mr. Sauvé says, results prepared for funding or accounting purposes should not be compared to results of calculations for the compensation value.
9. The remaining acceptable valuations in Mr Sauvé's letter are my original value of 23.8% (or 24.4%, using the age estimate in Mr Sauvé's letter) and Mr Sauvé's value of 24.7%. These values, in my opinion, constitute an acceptable range of assumptions for the valuation of the judicial annuity. Therefore, I understand Mr. Sauvé's reference to "an intermediate scenario" as referring to a point in the range between 23.8% and 24.7%.

Yours truly,



Brian A. P. FitzGerald F.I.A., F.C.I.A.