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June 15, 2016

PRIVATE & CONFIDENTIAL

Ms. Louise Meagher
Judicial Compensation and Benefits Commission
99 Metcalfe Street, 8th floor
Ottawa, ON K1A 1E3

Via Email [louise.meagher@quadcom.gc.ca]

Dear Ms. Meagher:

RE: 2015 Judicial Compensation and Benefits Commission

As indicated in our letter dated May 26, 2016, we have had further discussions to understand the differences in our approaches for the valuation of the judicial annuity program.

Mr. Pannu calculated the value of the judicial annuity to be 36.5% while Mr. Newell calculated the value of the judicial annuity program as 30.6%. We identified three issues in our letter that accounted for the different values in our reports:

- (i) Mr. Pannu used an age weighting that reflected private lawyers appointed to the bench while Mr. Newell used a weighting that reflected all lawyers appointed to the bench;
- (ii) Mr. Pannu included a disability benefit while Mr. Newell did not; and
- (iii) Mr. Pannu assumed that the marital status at retirement for a judge was that they were in a conjugal relationship with a spouse of the opposite gender and the same age as the judge while Mr. Newell assumed that 90% of judges were married at retirement and that male spouses were three years older than the female spouse.

As a result of our discussions, we are comfortable that we are using similar methods and assumptions in our valuation systems, and that we have a similar understanding of the terms of the judicial annuity program. We have further concluded that the only significant difference in our methodology is the decision to include or not to include a disability benefit – the other issues noted above only produce negligible differences in our judicial annuity values.

For the reasons set out in paragraphs 54 to 57 of his report, Mr. Newell remains of the view that, whether the disability benefit should be included in the value of the judicial annuity program is a matter to be determined by the Commission - and that this is not an actuarial decision. For your reference, from the calculations prepared by Mr. Newell (see paragraphs 47 to 50 of his report), the inclusion of the disability benefit would only increase the net value of the judicial annuity program by approximately 1.8% (that is, it would increase Mr. Newell's judicial annuity value from 30.6% to 32.4%).

Mr. Pannu valued the disability benefit as it is a benefit that is available under the judicial annuity program. Mr. Pannu agrees with Mr. Newell that the inclusion of the disability benefit is a determination to be made by the Commission.

For your reference, both Mr. Pannu and Mr. Newell attempted to reproduce each other's calculations of the judicial annuity program on the same terms (that is, including the disability benefit and using the same age weighting and marital status assumptions). Following discussions between Mr. Newell and Mr. Pannu, Mr. Newell calculated the value of the judicial annuity with a disability benefit to be 32.9%, or 3.6% lower than Mr. Pannu's calculation of 36.5%. While we were unable to identify the precise reason for the difference in our results, we believe that the difference is caused by differences in our computer programs (that is, the different methodologies in our computer programs and the use of approximations). Both Mr. Pannu and Mr. Newell believe that the differences between the two calculations are not significant enough to warrant further investigation.

To determine the precise reason for the difference in the calculations, Mr. Newell and Mr. Pannu would need to undertake a thorough peer review of each other's calculations, a process that would depend on the level of access that is provided to each other's calculations and which could be labour intensive. For these reasons, we do not propose to embark on such a process.

We trust the above is of assistance.

Yours sincerely,

Haripaul Pannu

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Dean Newell

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