

February 14, 2012

PRIVILEGED & CONFIDENTIAL

Judicial Compensation and Benefits Commission

99 Metcalfe Street, Suite 812

Ottawa, Ontario

K1A 1E3

Attn: Mrs. Suzanne Labbé, Executive Director

Dear Members of the Commission:

Re: Valuation of the Judicial Annuity

As requested, we have prepared this letter to provide an opinion on the methods and assumptions used by Mr. Harripaul Pannu in his December 13, 2011 report and by Mr. Brian FitzGerald in his January 27, 2012 letter on the valuation of the judicial annuity. In particular, the Commission wishes to review the economic assumptions underlying these valuations, considering the progression of interest rates since the first quadrennial commission, and the valuation of ancillary benefits including the disability and death benefits. Our observations and comments are as follows.

Methodology

Both Messrs Pannu and FitzGerald estimated the compensation value of the judicial annuity as a level percentage of pay over a judge's career in the judiciary. The compensation value is the employer paid portion of the judicial annuity. That is the total value of the annuity reduced by the value of the judges' own contributions. This actuarial method is appropriate for compensation benchmarking purposes and for purposes of comparing the value of different pension plans.

It should be noted, however, that the results of such an analysis are not comparable to the results prepared for funding or accounting purposes as a different actuarial method is generally used for these purposes. For funding or accounting purposes, the current service cost is determined as the value of the projected pension allocated to the one year period immediately following the valuation date. Technically with this method, the pension cost for one individual, expressed in dollars or as a percentage of salary, increases each year as the individual gets older. However, the average pension cost for a group of individuals will tend to remain stable over time to the extent that the average age of the group remains constant, as older participants retire and are replaced by younger ones.

