Undertaking # 22

MPI to provide what its intuitive expectation would be as to whether a rate indication calculated in accordance with accepted actuarial practice in Canada would be higher than, the same as, or lower than that which is now applied for, given today's claims, economic, and investment climates.

RESPONSE:

As per page 2080 of the Canadian Institute of Actuaries Standards of Practice:

> ***Time Value of Money***
> *.15 The investment return rate for calculating the present value of cash flows would reflect the expected investment income to be earned on assets that might be acquired with the net cash flows resulting from the revenue at the indicated rate.*
> *.16 Among various possible sets of such assets the actuary would consider default-free assets of appropriate duration, fixed income assets of appropriate duration, and assets which are expected to be acquired.*

The Corporation's *expectation* is that the estimated investment income earned using the approach described above would be less than what is currently assumed in the 2014/15 applied for rates. As a result, we would expect that the overall rate indication would be higher if rates were calculated in accordance with accepted actuarial practice in Canada.

If this approach was used, the Corporation would either have increasing retained earnings or would have to develop an approach to create an offset to the actuarial rate to achieve the break even net income target in the rating period.