

October 27, 2020

2021 GENERAL RATE APPLICATION
Undertaking #9 Transcript Page 458**Undertaking #9**

MPI to explain the net impact of changes in interest rates in the amount of \$34.8 million negative impact to net income as set out in figure INV-37.

RESPONSE:

The \$34.8 million in unfavorable interest rate impacts for claims is a result of a falling claims discount rate (16 bps). The claims discount rate is expected to fall for the remainder of the fiscal year due to falling MUSH yields (6bps) and weights (2bps) and Government Bond yields (8 bps). The figure below shows the calculation of the claims discount rate in the 2021 GRA. The Government Bond yields are forecasted to fall due to purchasing lower yield bonds to reduce the duration on marketable bonds to closely match to the claims liability duration.

Figure 1 Basic Claims Discount Rate – 2021 GRA

Line No.		2019/20		2020/21		2021/22	
		Q4	Q1	Q2	Q3	Q4	Q1
1	Basic Claims Liability Duration	9.96	9.99	10.09	10.10	10.08	10.08
2	Fixed Income Weighted Average Duration						
3	Government Bonds	8.28	8.29	7.35	7.45	7.46	7.45
4	Corporate Bonds	2.72	2.64	2.64	2.63	2.63	2.64
5	Total Fixed Income Weighted Average Duration	11.00	10.93	9.99	10.09	10.10	10.08
6	Net ALM Duration Gap	1.04	0.94	(0.10)	(0.01)	0.01	0.00
7	Percentage Allocations						
8	Government Bonds	54%	55%	56%	56%	57%	57%
9	Corporate Bonds	19%	20%	20%	20%	20%	20%
10	MUSH	26%	25%	24%	24%	23%	23%
11	Total Fixed Income Assets	100%	100%	100%	100%	100%	100%
12	Yield To Maturity						
13	Government Bonds	2.30%	2.30%	2.14%	2.16%	2.16%	2.16%
14	Corporate Bonds	3.77%	3.77%	3.77%	3.77%	3.77%	3.77%
15	MUSH	4.47%	4.46%	4.44%	4.41%	4.39%	4.37%
16	Total Fixed Income Yield to Maturity	3.16%	3.13%	3.02%	3.02%	3.00%	3.00%
17	Management Fees	0.07%	0.07%	0.07%	0.07%	0.07%	0.07%
18	Basic Claims Discount Rate	3.08%	3.06%	2.96%	2.95%	2.93%	2.93%