



The Certified Employee
Benefit Specialist® Program

RPA1 Managing Retirement Plans Part 1

Study Materials Update—April 2025

This material is required reading for purposes of the CEBS program and the national exams for the RPA 1 course administered on or after July 15, 2025.

This update corrects earlier printings of the RPA 1 Study Guide, Second Edition in light of recent legislative changes. This update covers a partial replacement of Module 4 and a complete replacement of Module 5 of the Study Guide (First Printing: December 2021, Second Printing: April 2022 and Third Printing: May 2023).

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How to Use This Update

For the printed version of the Study Guide:

Keep this update with your study materials. It should be read in conjunction with the assigned reading for RPA 1.

For the digital Study Guide:

These updates will be reflected in the digital versions of the Study Guide.

Instructions

There are two types of updates:

1. Minor—Where changes are made to a small section of the text, changes are indicated in **bold**.
2. Major—Entire sections are provided as a replacement.

Study Guide Module 4

Page 25, Text Commentary, Exceptions to Locking-In (Unlocking), Text, Pages 265-268:
Remove the current pages 25 to 26 from your Study Guide and replace them with the new pages that follow. The third paragraph in this section has been updated.

Exceptions to Locking-In (Unlocking), Text, Pages 265-268

Page 267, paragraph 4, sentence 1 of the Text lists provinces where an individual may be able to access funds in locked-in vehicles in situations involving financial hardship. Add Saskatchewan to the list.

Page 267, paragraph 4 of the Text states that “financial hardship unlocking from a pension plan is not allowed.” This refers to the fact that it is not possible for an active member of a pension plan to access benefits under the plan (that is, “unlock” the monies). However, a pension plan member who has terminated membership in the pension plan and subsequently transferred their pension plan benefit to a locked-in vehicle such as a Locked-In Retirement Account or locked-in RRSP may apply to the administrator of that vehicle for reasons of financial hardship.

Manitoba, Newfoundland and Labrador, and Saskatchewan now allow the unlocking of pension funds in the case of financial hardship.

Manitoba now also allows former members who meet certain age requirements to unlock pension funds. An individual who has reached age 65 may unlock the full value of any funds held in a locked-in retirement account or life income fund. Upon reaching age 55, an individual may make a one-time 50% transfer from one of those locked-in vehicles to a prescribed registered retirement income fund.

Portability, Text, Page 268

Reference to “transfer the commuted value” is applicable to a DB pension plan only. In a DC pension plan, the benefit at termination of employment is simply the value of the member’s account balance in the DC pension plan.

Variable Benefit Accounts Within Defined Contribution Pension Plans, Text, Page 270

While the majority of jurisdictions allow for variable benefit payments from DC pension plans, few DC pension plans actually offer this type of option for a retiring member. There is a clear benefit for the retiring member, who should be able to access lower investment fees through their employer-sponsored plan than through a retail investment product. However, governance requirements associated with continued membership of retirees can be seen as onerous by plan sponsors, and even if this is not the case, service providers (primarily insurers) must be willing to establish variable benefit accounts within the pension plan. For smaller DC pension plans, these two matters may impede members’ access to variable benefit accounts.

Study Guide Module 5

Pages 1 to 75, Module 5. Remove the current Module 5 from your Study Guide and replace it with the new pages that follow. The Assigned Reading, Professional Enrichment Resources, Outline of Knowledge, Key Terms and Learning Outcomes 1.1, 1.3, 2.2, 4.1, 4.2, 4.3, 4.4, 5.2, 5.3, 5.4, 5.6, 5.7, 5.8 and 5.9 have been updated. Reading A and Reading C have been replaced. Benefits in Action #2— “How do we decide on the assets to include in our pension fund?” has been updated throughout.

Establishing Effective Governance

The next five modules address the governance of the various retirement plans introduced in earlier modules. *Plan governance* refers to the structure and processes for overseeing, managing and administering a plan to ensure fiduciary and other obligations of the plan are met. *Governance* includes defining roles and responsibilities for the administration, financial management and investment functions, and monitoring their execution. The nature of the plan sponsor's governance role depends on plan type—whether the plan is registered or nonregistered and whether it is defined benefit (DB) or defined contribution (DC). This module provides an overview of governance of both DB and DC registered pension plans (RPPs) as well as capital accumulation-type products.

Modules 6 through 9 provide a more detailed examination of administrative, financial management and investment management considerations.

Assigned Reading



Text

Chapter 4, Pages 89 to 117 (to Possible Governance Issues in Benefit Plans), Pages 119 (from Capital Accumulation Plan Guidelines) to 123 (to Getting Started) and Pages 127 (from recent CAPSA Guidelines) to 130 (to Conducting a Governance Audit or Review)

Reading A

Text Commentary, Study Guide Module 5, Pages 29-34

Reading B

CAPSA Guideline No. 4, Pension Plan Governance Guideline, Study Guide Module 5, Pages 35-45

Reading C

CAPSA Guideline No. 3, Guideline for Capital Accumulation Plans (CAP Guideline), Study Guide Module 5, Pages 47-75



Benefits in Action #2

“What should you know about governance before introducing a workplace pension plan?” Study Guide Module 5, Pages 77-97



Professional Enrichment Resources

CAPSA Guideline No. 4, Pension Plan Governance Guideline, Self-Assessment Questionnaire and Frequently Asked Questions can be downloaded from this site:

<https://www.capsa-acor.org/GuidelinesforIndustry>.

Why Read This?

The CAPSA Self-Assessment Questionnaire is an industry resource to help plan sponsors assess whether their plans follow best practice governance principles. The Frequently Asked Questions section provides plan administrators with general guidance and clarification about information included in *Guideline No. 4, Pension Plan Governance Guideline*.

CAPSA Guideline No. 10, Guideline for Risk Management for Plan Administrators (Risk Management Guideline)

Why Read This?

Applicable to plan administrators of defined benefit, defined contribution, pooled registered, target benefit or hybrid plans, Guideline No. 10 defines elements of a risk management framework and sets out principles to identify, evaluate, manage and monitor material risks to the plan. While the guidance is directed to pension plans specifically, the principles outlined, particularly those related to cybersecurity; third-party risk; and environmental, social, and governance (ESG) issues, are also relevant to CAP sponsors.



Learning Outcomes

1. Define governance and outline the activities and roles of various participants in effective plan governance.
2. Describe the fiduciary obligations of plan sponsors and how these obligations may differ depending on the type of plan that is sponsored.
3. Describe the legislative guidance available to plan sponsors when considering plan governance.
4. Describe the nonlegislative guidance available to plan sponsors when considering plan governance.
5. Outline the activities that plan administrators may undertake in their governance regime should they choose to comply with guidelines issued by the Canadian Association of Pension Supervisory Authorities (CAPSA).

Benefits in Action #2

“What should you know about governance before introducing a workplace pension plan?”

1. Apply knowledge of industry-based best practice governance guidelines and principles.
2. Evaluate the pension lawyer’s and pension advisor’s presentation to potential plan sponsors in terms of communicating the significance of the governance to pension plan management.



Outline of Knowledge

- A. Governance of retirement savings plans
 - 1. Definition of governance
 - 2. Plan operational responsibilities
 - 3. Legal pension plan administrators
- B. Fiduciary responsibility and prudence
 - 1. Definition of fiduciary relationship
 - 2. Fiduciary responsibilities of a plan administrator
 - 3. Prudent decision making
- C. Pension and nonpension retirement plan governance
 - 1. Components of governance
 - 2. Development of pension governance in Canada
 - 3. Legislative governance guidance
 - 4. Industry governance guidance
- D. Canadian Association of Pension Supervisory Authorities (CAPSA) Governance Guideline
 - 1. Principles
- E. Governance within risk-based regulatory frameworks
- F. CAPSA Guideline for Capital Accumulation Plans
 - 1. Intent
 - 2. Responsibilities of CAP sponsors, administrators and service providers
 - 3. Expectations for member communication
- G. Additional CAPSA governance guidelines
 - 1. Prudent investment practices
 - 2. Funding policy
 - 3. Defined contribution pension plans guideline
 - 4. Risk management guideline



Key Terms

- Governance
- Fiduciary responsibilities
- Delegation
- “Two hats” doctrine
- Pension plan administrator
- Prudence and prudent person rule
- Pension advisory committee
- Legislative guidance
- Risk-based frameworks
- Nonlegislative guidance
- Canadian Association of Pension Supervisory Authorities (CAPSA)
- Capital accumulation plan (CAP)
- Investment choice
- Member communication
- Service providers
- Funding policy

Learning Outcome



1

Define governance and outline the activities and roles of various participants in effective plan governance.

1.1 Define governance in the context of pension plans and identify key activities of effective plan governance. (Text, p. 89, Reading B, CAPSA Guideline No. 4, Pension Plan Governance Guideline, Study Guide Module 5, p. 37)

In the broadest sense, every action taken by a plan sponsor (or committee or agent acting on behalf of the organization) related to the operation of its pension plan falls under the heading of *governance*. When regulators talk about pension governance, they typically refer to the formal documented framework that defines how the tasks and duties involved in the operation, management and oversight of a pension plan will be carried out in order to meet fiduciary and other obligations of the plan.

An effective pension governance system:

- (a) Establishes a framework for defining the duties, associated responsibilities and accountabilities for all participants in the governance process
- (b) Covers all facets of pension plan management, including communication, funding, investments and benefit administration
- (c) Provides careful oversight while enhancing protection for plan members and beneficiaries.

Good pension plan governance:

- (a) Is essential for fulfilling fiduciary duties and other responsibilities
- (b) Minimizes risks and maximizes efficiency
- (c) Promotes accurate, timely and cost-effective delivery of pension benefits
- (d) Ensures administration of the plan is in the best interests of plan members and beneficiaries
- (e) Implements control mechanisms that encourage good decision making, proper and efficient practices, clear accountability, and regular review and evaluation
- (f) Contributes to positive pension plan performance
- (g) Demonstrates due diligence on the part of the plan administrator.

1.2 Outline some risks of poor governance and the benefits of effective governance.

(Text, p. 90)

There are numerous risks which arise from poor plan governance, including class action and other lawsuits, regulatory audits, fines and other costs related to correction of errors. There are also benefits from doing more than the minimum—increased appreciation and confidence from plan members, a higher likelihood of members receiving their full benefits, evidence of compliance and “due diligence,” evidence of exercising one’s fiduciary duty, improved efficiency/reduced risk of loss, well-organized training materials for successors on the pension committee or board of trustees as well as for directors and employees working on administrative tasks, and reduced risk of regulator intervention.

1.3 List examples of operational responsibilities of a pension plan sponsor, which if met along with adherence to fiduciary principles, can constitute pension plan governance and provide sound management of the plan. (Text, p. 91)

The operation of a plan requires meeting certain responsibilities such as:

- (a) Defining the roles and responsibilities of all parties involved in the operation of the plan
- (b) Ensuring that the persons delegated with those responsibilities have the interest, availability, education and skills required to perform their duties
- (c) Selecting and monitoring service providers
- (d) Completing the regulatory requirements
- (e) Maintaining complete plan documentation
- (f) Communicating with employees
- (g) Managing the fund assets.

1.4 List entities that are commonly involved in the administration of a pension plan.

(Text, pp. 91-92)

Entities commonly involved in the administration of a pension plan include:

- (a) Plan administrator (including the board of directors when the employer is a private sector corporation)
- (b) Pension committee
- (c) Bargaining agent
- (d) Plan fund trustees
- (e) Actuaries and auditors
- (f) Third-party benefits administrator
- (g) Other external service providers
- (h) Regulators.

2



Learning Outcome

Describe the fiduciary obligations of plan sponsors and how these obligations may differ depending on the type of plan that is sponsored.

2.1 Identify the fiduciary responsibilities of a pension plan administrator.

(Text, pp. 93-94 and 97)

Administrators of registered pension plans are considered to stand in a fiduciary capacity in relation to plan members and other beneficiaries in all jurisdictions across Canada, regardless of whether the pension plan is a DB, DC or hybrid arrangement.

In its fiduciary role, the plan administrator's responsibilities include:

- (a) Treating members and beneficiaries impartially
- (b) Acting with the care, skill and diligence of a prudent person
- (c) Interpreting the plan terms fairly, impartially and in good faith
- (d) Managing conflicts of interest
- (e) Within the scope of such duties and its authority, ensuring that members and beneficiaries receive promised benefits.

Fiduciary responsibilities cannot be delegated by the fiduciary. Duties may be delegated, but the responsibility for proper and complete fulfillment of those duties remains with the original identified holder of the fiduciary duty.

2.2 Explain the “two-hats” theory and its significance for corporate employers that sponsor a pension plan. (Text, pp. 93-94 and p. 104)

When a corporate employer sponsors a pension plan, it must recognize that there will be times when decision making by its board of directors will be done in the board's role as the plan sponsor, and other times decisions will be made in the board's role as the plan administrator. The inherent conflict that exists in this context has been characterized in common law Canadian jurisdictions as the “two hats” doctrine or theory. Since the *Sun Indalex Finance, LLC v. United Steelworkers* decision by the Supreme Court of Canada in 2013, there is no longer a straightforward separation between the roles of the employer as sponsor and the

employer as administrator. As plan sponsor, the employer may act in the company's best interests, but when acting as the plan administrator, the employer must also consider the implication of its decisions on the pension plan and its members. In this dual role, the plan administrator must consider what actions, if any, need to be taken to protect the interests of plan members, even if such actions conflict with the sponsor's business objectives. The dual role played by the employer underscores the need for robust pension plan governance.

2.3 Describe the fiduciary responsibilities of the sponsor of a Group Registered Retirement Savings Plan (Group RRSP). (Reading A, Text Commentary, Study Guide Module 5, p. 31)

Anyone who is responsible for managing the assets of another person is considered a fiduciary at common law. In this case, the fiduciary responsibility is implied by the situation, not through legislation.

It is generally agreed that the extent of a Group RRSP sponsor's fiduciary responsibilities depends largely on how it defines its role as agent to the employees. The scope of the fiduciary responsibilities of a Group RRSP sponsor depends on how it defines its role. An employer that takes an active role in the oversight and management of the Group RRSP has a higher fiduciary duty of care. If the employer communicates that it is simply facilitating payroll deduction and requires the employee to make all other decisions, it has a lesser fiduciary duty of care.

So an employer may be able to reduce its fiduciary risk in a Group RRSP by clearly communicating that its role is simply to act as an agent. However, employers that limit their role in this way, removing themselves from plan oversight and management, may increase the risk that the Group RRSP will not perform as expected.

The best way for a capital accumulation plan (CAP) sponsor to ensure its fiduciary duties are met, related risks are properly managed and member outcomes are maximized is to develop and implement effective plan governance. This includes adhering to best practices regarding proper oversight, communication and education, providing choices, monitoring fees and encouraging independent advice.

3



Learning Outcome

Describe the legislative guidance available to plan sponsors when considering plan governance.

3.1 Outline the entities that pension standards legislation generally allow to act as the legal plan administrator and describe the requirements of the two jurisdictions where requirements are different. (Text, pp. 92-94)

Pension standards legislation defines who can be the administrator—This generally includes:

- (a) The employer
- (b) A pension committee comprising one or more representatives of the employer or any person required to make contributions under the plan and, possibly, members of the plan
- (c) A pension committee comprising representatives of members of the plan (in some cases, this may include former or retired members)
- (d) The insurer guaranteeing the benefits provided under the plan
- (e) A replacement administrator appointed by the pension standards regulator
- (f) In the case of a multi-employer or collectively bargained plan, a board of trustees or pension committee constituted in accordance with the terms of the plan or collective agreement
- (g) A board, agency or commission appointed or established by an act of the legislature.

The two jurisdictions where requirements are different are Québec and Manitoba. Québec legislation requires that a pension committee be appointed to administer the plan. Single employer plans registered in Manitoba that have 50 or more members must establish a pension committee to be plan administrator.

3.2 Define prudence and explain how the prudent person rule applies to the administrator of an RPP. (Text, pp. 93 and 97)

Prudence refers to the decision-making process that leads to impartial consideration of outcomes by a fiduciary. Prudence demands caution, attentiveness and care. The intent is to make the right decisions for the specific situation and the specific group of people. A decision that is prudent for one situation and one group of people may not be prudent for another situation or group of people.

The prudent person rule demands that the administrator act fairly and honestly without conflict of interest and with consideration for the best interests of the plan members, beneficiaries and the plan. When considering decisions made around pension plan administration, prudence dictates that if an administrator does not have the expertise to advise in certain situations, that administrator should obtain qualified professional advice.

The administrator of an RPP is subject to the prudent person rule in a number of jurisdictions. The Ontario Pension Benefits Act (PBA) rule requires the administrator to “exercise the care, diligence and skill in the administration and investment of the pension fund that a person of ordinary prudence would exercise in dealing with the property of another person.”

3.3 Describe the duties of pension advisory committees generally outlined in pension standards legislation and outline the conditions that require the establishment of pension advisory committees. (Text, pp. 94-95)

The legislation in each jurisdiction must be reviewed to determine first if there is a right to form an advisory committee and, if so, what requirements are necessary to establish one, as well as to determine the powers and duties of such a committee. Legislated pension advisory committees do not make any decisions with respect to the administration of the plan, nor are they delegated any administrative activities by the plan administrator. Individuals on advisory committees are mainly involved in an information-sharing activity. Therefore they do not have any fiduciary obligations.

Pension standards legislation relating to pension advisory committees includes such duties for those committee as:

- (a) Promoting awareness and understanding of the pension plan
- (b) Making recommendations for improvements in the pension plan
- (c) Reviewing/monitoring the administrative aspects of the pension plan
- (d) Attending to any other matters as requested by the employer.

In some jurisdictions (e.g., federal, British Columbia, Newfoundland and Labrador, and Saskatchewan), in plans with a minimum number of 50 members, if the majority of plan members request a pension advisory committee, the employer must establish one.

In Ontario and Nova Scotia, if the administrator is a pension committee and that committee includes at least one member appointed by plan members, there is no legislated right to form an advisory committee. If this is not the case, the majority of members and former members may establish an advisory committee by majority vote.

3.4 Describe how some Canadian pension jurisdictions offer legislative guidance to plan sponsors relating to plan governance. (Text, pp. 109-110)

Québec, Manitoba, British Columbia and Alberta all require certain governance activities by plan sponsors. Ontario and New Brunswick have proposed a requirement to have written governance material but have not put their requirements into force.

For those jurisdictions with legislated requirements, their general approaches can be summarized as follows:

- (a) Québec requires that each plan administrator adopt a written set of internal bylaws that address prescribed governance-related topics.
- (b) Manitoba requires that pension committees establish rules of procedure and governance that must be reviewed at least once every three years.
- (c) British Columbia and Alberta have almost identical regulations relating to governance policies. These jurisdictions require that plan administrators establish governance policies, ensure that the plan be administered in accordance with these policies, and regularly assess and document the administration of the plan. Minimum requirements of the governance policies are prescribed.

3.5 Describe how some Canadian pension jurisdictions with risk-based approaches to overseeing pension plans recognize pension plan governance. (Text, pp. 116-117)

Governance has become a key consideration for many pension regulators as they concentrate more time and resources on dealing with plans that are considered at risk of failing. Regulators in the federal jurisdiction, Ontario and British Columbia all implemented risk-based approaches to overseeing pension plans that generally consist of three related processes: risk monitoring, risk assessment and risk response.

The federal regulator, Office of the Superintendent of Financial Institutions (OSFI), and the Financial Services Commission of Ontario (FSCO) introduced their frameworks in 2011, and the BC regulator BC Financial Institutions Commission (FICOM) introduced theirs in 2014. Pension plan governance is or was, either directly or indirectly, a key consideration under these risk-based regulatory frameworks. The BC Financial Services Authority replaced FICOM and has adopted all FICOM forms, bulletins and guidance. The Financial Services Regulatory Authority of Ontario (FSRA) succeeded FSCO and has replaced the risk-based framework with two guidance (“Approach”) documents that recognize the importance of governance in the administration of pension plans. For example, FSRA states that “FSRA will review the governance framework of actively monitored plans as an essential component of good plan administration. This requires governance practices that ensure that the administrator’s fiduciary duties are being appropriately satisfied.”

Learning Outcome

Describe the nonlegislative guidance available to plan sponsors when considering plan governance.



4

4.1 Identify nonlegislative governance guidance that is available to plan administrators.

(Text, pp. 111-112, Reading A, Text Commentary, Study Guide Module 5, p. 32; Reading C, CAPSA Guideline No. 3, Guideline for Capital Accumulation Plans, Study Guide Module 5, p. 50; Reading B, CAPSA Guideline No. 4, Pension Plan Governance Guideline, Study Guide Module 5, p. 38)

The Canadian Association of Pension Supervisory Authorities (CAPSA) has developed several guidelines related to the governance of pension and other retirement savings plans. These include the following.

- (a) Guideline No. 3, Guideline for Capital Accumulation Plans (CAP Guideline). This outlines and clarifies the regulators' views on the responsibilities of capital accumulation plan (CAP) sponsors, administrators, service providers and CAP members; industry best practices in the maintenance and administration of a CAP; and the information that should be provided to CAP members.
- (b) Guideline No. 4, Pension Plan Governance Guideline and related self-assessment questionnaire. These provide overall guidance to assist pension plan administrators of all types and sizes of pension plans in achieving and maintaining good governance and assesses whether their plans follow best practice governance principles as outlined in Guideline No. 4.
- (c) Guideline No. 10, Risk Management for Plan Administrators. Applicable to plan administrators of a DB, DC, pooled registered, target benefit or hybrid plan, it defines elements of a risk management framework and sets out principles to identify, evaluate, manage and monitor material risks. It is intended to complement other CAPSA guidelines that refer to risk management. While the guidance is directed to pension plans specifically, the principles outlined, particularly those related to cybersecurity; third-party risk; and environmental, social, and governance (ESG) issues, are relevant to CAP sponsors.

4.2 Describe why a plan administrator may want to comply with the CAPSA Pension Plan Governance Guideline, CAP Guideline and Guideline for Risk Management for Plan Administrators. (Text, p. 123, Text Commentary, Study Guide Module 5, p. 32)

Compliance with CAPSA guidelines is voluntary; there is no legislative requirement to comply.

Compliance can be an effort to manage the risks related to administering a pension plan and a desire to improve plan performance, increase efficiencies and help CAP participants. The guidelines give plan administrators a clearer picture of what they can and should do with respect to the governance of their programs.

Should a plan be subject to litigation, the reasonableness of the administrator's actions will be evaluated against the documented policies and processes they have in place as well as their compliance with those policies and processes. It would seem increasingly difficult, absent some very unusual circumstances, for a plan administrator to argue that they are acting with the care, skill and diligence of a prudent person in administering their plan should they have completely ignored the advice of leading authorities on what best practice governance is for people in their roles.

4.3 Identify why administrators of DC pension plans that are CAPs should consider the CAPSA Governance Guideline, Guideline for Risk Management for Plan Administrators and CAP Guideline within their governance activities.

(Text, p. 119 , Reading C, CAPSA Guideline No. 3, Guideline for Capital Accumulation Plans (CAP Guideline), Study Guide Module 5, p. 50)

In DC plans, it is clearly the members who bear the investment risk and who are usually given investment options. This factor can increase the potential liability faced by a DC plan administrator and can also create additional administrative responsibilities related to member education and communication. The CAP Guideline is in addition to, not a replacement for, the CAPSA Governance Guideline.

4.4 Describe the intent and application of the CAP Guideline. (Reading C, CAPSA Guideline No. 3, Guideline for Capital Accumulation Plans (CAP Guideline), Study Guide Module 5, pp. 50-51)

A *capital accumulation plan (CAP)* is a tax-assisted investment or savings plan or program where members make decisions in respect of the investment of their individual accounts among two or more investment options selected by the CAP sponsor.

The intent of the CAP Guideline is to outline and clarify the regulators' views on:

- (a) The responsibilities of CAP sponsors, administrators, service providers and CAP members
- (b) Industry best practices in the maintenance and administration of a CAP
- (c) The information that should be provided to CAP members.

The CAP Guideline applies to all tax-assisted plans that have member-directed investments. They do not apply to CAPs where the investor has no investment choice.

- (a) Examples of a CAP with a retirement savings/income focus may include most DC pension plans, Deferred Profit-Sharing Plans (DPSPs), Group RRSPs, Locked-In Retirement Accounts (LIRAs), Registered Retirement Income Funds (RRIFs), Life Income Funds (LIFs), Pooled Registered Pension Plans (PRPPs), Voluntary Retirement Savings Plans (VRSPs), Tax-Free Savings Accounts (TFSA), hybrid plans and flexible DB plans.
- (b) Examples of a CAP without a retirement savings/income focus include Registered Education Savings Plans (RESPs) and First Home Savings Accounts (FHSAs).

4.5 Identify and outline the general purpose of CAPSA's Guideline on Fundholder Arrangements, Pension Plan Prudent Investment Practices Guideline, Pension Plan Funding Policy Guideline and Defined Contribution Pension Plans Guideline. (Text, pp. 127-130)

CAPSA has issued four additional governance guidelines that relate to RPPs:

- (1) Guideline No. 5, Guideline on Fund Holder Arrangements—Identifies the permitted type of fund holder arrangements and describes the roles and responsibilities of the key players and other parties to these arrangements in the context of what a pension standards regulator will look for when reviewing the fund holder arrangement
- (2) Guideline No. 6, Pension Plan Prudent Investment Practices Guideline—Intended to help plan sponsors demonstrate the application of prudence to the investment of plan assets
- (3) Guideline No. 7, Pension Plan Funding Policy Guideline—Offers guidance on the development of funding policies for DB pension plans, with a focus more on the plan liability side rather than the plan investment or asset side
- (4) Guideline No. 8, Defined Contribution Pension Plans Guideline—Builds on the guidelines and documents related to DC plans previously released by CAPSA, with additional content relating to the provision of information to members about the payout phase to allow them to make informed decisions regarding their retirement benefits. This includes recommendations about the provision of estimated final account balances and retirement incomes as well as increased fee disclosure.

Learning Outcome



5

Outline activities that plan administrators may undertake in their governance regime should they choose to comply with the Canadian Association of Pension Supervisory Authority's (CAPSA's) Pension Plan Governance and CAP Guidelines.

5.1 Identify the eleven principles of the CAPSA Governance Guideline. (Text, p. 113, Reading B, CAPSA Guideline No. 4, Pension Plan Governance Guideline, Study Guide Module 5, pp. 38-39)

The CAPSA Governance Guideline recommends that the plan administrator do the following or cause the following to be done.

- (a) Understand its fiduciary responsibilities to plan members and beneficiaries. The plan administrator may have other responsibilities to other stakeholders.
- (b) Establish and document a governance framework for the administration of the plan.
- (c) Clearly describe and document the roles, responsibilities and accountabilities of all participants in the pension plan governance process.
- (d) Establish and document performance measures to monitor the performance of participants in the governance and administration of the plan.
- (e) Directly, or with delegates, apply the knowledge and skills needed to meet the plan administrator's responsibilities.
- (f) Establish and document a process to obtain and provide to governance participants appropriate information to meet fiduciary and other responsibilities.
- (g) Establish and document a framework and ongoing processes, appropriate to the pension plan, to identify and manage the plan's risks.
- (h) Establish and document appropriate processes to ensure compliance with legislative requirements and pension plan documents.
- (i) Establish and document a communication process with the aim to be transparent and accountable to plan members, beneficiaries and other stakeholders.

- (j) Establish and document a code of conduct, incorporating a policy to manage conflicts of interest.
- (k) Establish and document a process for the regular review of the pension plan's governance framework and processes.

5.2 Identify how a CAP sponsor may wish to incorporate the CAP Guideline into its governance structure. (Reading C, CAPSA Guideline No. 3, Guideline for Capital Accumulation Plans (CAP Guideline), Study Guide Module 5, p. 55)

A CAP sponsor may wish to consider the creation of the following documents when designing a governance structure for a CAP:

- (a) A description of the roles, responsibilities and accountabilities of any stakeholders or parties involved in the governance of the plan (e.g., employer, union, board of directors, pension committee, governance committee, service providers, plan members)
- (b) A communication process, including a process for addressing member complaints
- (c) A code of conduct, including a policy to manage conflicts of interest
- (d) A risk management framework that may be applicable to the CAP and also considers Guideline No. 10, Guideline for Risk Management for Administrators
- (e) A framework for the regular review of the performance of service providers, including investment managers (with articulated performance criteria)
- (f) A process for the regular review of the governance process.

5.3 Identify CAP sponsor responsibilities outlined in the CAP Guideline.

(Reading C, CAPSA Guideline No. 3, Guideline for Capital Accumulation Plans (CAP Guideline), Study Guide Module 5, pp. 52-53)

The CAP Guideline covers the following responsibilities:

- (a) Setting up the CAP
- (b) Determining the key features of the CAP, including automatic features, if any
- (c) Selecting service providers, if any
- (d) Selecting investment options and investment funds
- (e) Maintaining records
- (f) Introducing the CAP and providing access to ongoing education to CAP members
- (g) Providing plan communications to CAP members
- (h) Providing CAP member access to decision-making tools and investment information
- (i) Maintaining oversight of the CAP, including the performance monitoring and oversight of service providers and investment options as well as the review of fees, expenses, member education materials and decision-making tools
- (j) Providing members with access to education on the options available upon their termination or retirement, as applicable, and terminating the CAP.

5.4 What are some of the benefits to the inclusion of automatic features in CAP design? (Reading C, CAPSA Guideline No. 3, Guideline for Capital Accumulation Plans (CAP Guideline), Study Guide Module 5, p. 56)

Examples of automatic features include:

- (a) Automatic enrollment
- (b) Automatic escalation of cap member contributions
- (c) Automatic rebalancing of investments
- (d) Default electronic communication
- (e) Default investment options
- (f) Default elections at termination of employment and retirement.

Benefits of the inclusion of automatic features in CAP design include:

- (a) Increased participation in a plan
- (b) Early and greater contributions
- (c) Appropriate investment selection.

5.5 Describe how most CAP administrators provide investment information to plan members and any shortcomings of this approach. (Text, p. 120)

Most plan administrators provide investment information to members, either directly or through their recordkeepers or investment managers. Some of this is general information on investment basics, and some is specific data on the characteristics and past performance of each of the investment options. They may also make certain tools available, such as self-assessment questionnaires that members may use to determine their risk tolerance and make their investment choices.

The dissemination of all of this information has one thing in common: In the vast majority of cases, it is provided to members, who can decide whether or not to use it. The problem is that a good proportion of the membership (in many cases more than half) will not make use of the information and therefore will not be qualified to make investment decisions.

5.6 Identify factors CAP sponsors should consider when establishing criteria for selecting or changing service providers in general. (Reading C, CAPSA Guideline No. 3, Guideline for Capital Accumulation Plans (CAP Guideline), Study Guide Module 5, pp. 56-57)

Factors for the CAP sponsor to consider when establishing criteria for selecting (or changing) any service provider it engages include:

- (a) Its specific needs
- (b) Potential conflicts of interest
- (c) Reputation
- (d) Professional qualifications or designations
- (e) Historical and expected stability of the service provider team
- (f) Experience
- (g) Specialization in the type of service to be provided
- (h) Controls in place to secure cap members' personal data
- (i) Consistency of service offered in all geographical areas in which members reside
- (j) Quality, level and continuity of services offered
- (k) Competitiveness and reasonableness of the cost of services provided
- (l) Appropriate level of access to information from the service provider to allow the CAP sponsor to meet CAP member disclosure requirements as outlined in the guideline.

Where the CAP sponsor delegates tasks or functions to a service provider, the CAP sponsor should ensure that the applicable roles and responsibilities of the CAP sponsor and service provider are documented.

5.7 Identify factors CAP sponsors should consider when establishing criteria for selecting service providers to provide investment or financial planning advice to members. (Reading C, CAPSA Guideline No. 3, Guideline for Capital Accumulation Plans (CAP Guideline), Study Guide Module 5, p. 67)

When establishing criteria for selecting service providers to provide investment or financial planning advice to members, CAP sponsors should consider:

- (a) Criteria used to select service providers generally (i.e., potential conflicts of interest; reputation; professional qualifications or designations; historical and expected stability of the service provider team; experience; specialization in the type of service to be provided; controls in place to secure CAP members' personal data; consistency of service offered in all geographical areas in which members reside; quality, level and continuity of services offered; competitiveness and reasonableness of the cost of services provided; and appropriate level of access to information from the service provider to allow the CAP sponsor to meet CAP member disclosure requirements as outlined in the CAP Guideline)
- (b) Any conflict of interest or real or perceived lack of independence of the service provider relative to other plan service providers, the CAP sponsor and its members that may impact the investment advice or other services provided
- (c) The availability of an asset allocation or financial planning model as well as the existence of processes for ensuring the ongoing reasonableness of the model's underlying assumptions
- (d) Any qualifications, such as registrations and/or proficiency requirements, that individuals and/or their firms must meet before they can provide investment advice or financial planning services, including the use of financial advisor and financial planner titles, as applicable
- (e) Knowledge of CAPs and related tax and regulatory requirements, as applicable
- (f) The requirement to protect the security of CAP members' personal data
- (g) The level and competitiveness of fees charged for services provided, as well as which fees are paid by the member
- (h) Any commissions or other incentives that the service provider may obtain from the CAP members' investment in certain options.

5.8 Describe the information that CAP sponsors should provide to plan members on an ongoing basis, according to the CAP Guideline. (Reading C, CAPSA Guideline No. 3, Guideline for Capital Accumulation Plans (CAP Guideline), Study Guide Module 5, p. 68)

According to the CAP Guideline, plan sponsors should regularly provide CAP members with a member statement that includes:

- (a) A summary of the member's investments
- (b) The allocation of contributions invested in chosen investments
- (c) Investment activity through the statement period
- (d) Notice of requirement or ability to commence retirement income (if applicable)
- (e) Minimum and maximum allowed withdrawal amounts for the following year (if applicable)
- (f) The member's personal rate of return
- (g) Information regarding total level of fees and expenses for each investment option, or where to locate for investment options available but not currently selected.

In addition, a performance report should be provided at least annually for each investment fund, containing certain information.

Other information should be provided to plan members if significant changes are made to the CAP's purpose or an investment option as well as if an option is added, removed or replaced.

Upon request and if not included on the member statement, members should be given such additional information as more details of investment options and funds (including GICs and other fixed-term investments), transactions, contributions, projections and estimates, fees and expenses, and transfer options, as well as an explanation or demonstration of the impact that fees and expected returns have on the member's long-term saving and retirement income.

5.9 Outline factors a CAP sponsor should consider in establishing criteria for its periodic review of each investment option and fund in its plan. (Reading C, CAPSA Guideline No. 3, Guideline for Capital Accumulation Plans (CAP Guideline), Study Guide Module 5, pp. 72-73)

CAP sponsors should periodically, and at least annually, review the performance of each investment option and fund. In establishing criteria for its periodic review, it should consider:

- (a) Updating the criteria to reflect changes in the marketplace
- (b) Including a performance assessment, relative to its benchmark, as applicable, over various time periods
- (c) Assessing whether the amount of fees associated with the investment options are reasonable and achieve value for plan members given the actual and expected investment performance
- (d) Ensuring that risks, returns and characteristics of the investment options are aligned with expectations
- (e) The impact of any changes to the investment manager's firm, team or investment strategy
- (f) Members' investment behavior and usage of the investment fund.

Reading

Text Commentary

A

The Text Commentary expands upon or provides current and relevant applications to the Text reading. It should be read in conjunction with the Text.

References to Guideline No. 3, Guideline for Capital Accumulation Plans (CAP Guideline) Throughout the Text

There are numerous references throughout the text to Guideline No. 3, Guideline for Capital Accumulation Plans (CAP Guideline). This refers to the 2004 version, replaced in September 2024.

Only those text references that have testable content are updated in this Text Commentary. All learning outcome questions, practice exam questions and CEBS examination questions related to the CAP Guideline will be drawn directly from Reading A, Text Commentary, Study Guide Module 5, or Reading C, Guideline No. 3, Guideline for Capital Accumulation Plans (CAP Guideline).

Differences Between Governance of Pension and Nonpension Retirement Arrangements

Much of Chapter 4 describes the governance requirement for registered pension plans (RPPs). Because pension standards legislation does not apply to nonpension registered plans (Group Registered Retirement Savings Plans (Group RRSPs) and deferred profit-sharing plans (DPSPs)), the legislative governance requirements do not apply to those plans either.

However, that does not mean that effective governance is not an objective for sponsors of nonpension registered plans. In fact, the Canadian Association of Pension Supervisory Authorities (CAPSA) Guideline for Capital Accumulation Plans (CAP Guideline) was developed in part for the purpose of offering sponsors of nonpension registered plans that are capital accumulation plans (CAPs) assistance in establishing a governance structure for such plans.

The following are specific differences, where they exist, between the governance of pension and nonpension retirement plans.

Roles and Responsibilities, Text, Page 91-92

For a nonpension CAP, the list of entities involved in administration is substantially similar to that for RPPs, often excluding only actuaries, auditors and regulators in the context of those regulators who administer pension standards legislation. Because nonpension CAPs are registered with the Canada Revenue Agency (CRA), that regulator does have involvement for nonpension registered plans.

Plan Administrator, Text, Pages 92-94

Add the following at the end of the bulleted list:

- Another type of pension plan available in Manitoba and Québec is the simplified pension plan (SPP), which is a defined contribution (DC) pension plan. In terms of governance, SPPs differ from traditional DC pension plans in the nature of the plan administrator. The legal administrator for an SPP is the financial institution (i.e., a bank, trust company, savings or credit union, or an insurance company) that offers such a product. The financial institution must look after all duties required of a plan administrator, including the registration of the plan, etc.

For nonpension CAPs, there is no legislative definition of “plan administrator”; normally the CAP sponsor is also the plan administrator.

Plan Administrator, Text, Page 93

Add to the end of the second paragraph:

The prudent person rule applicable to RPPs does not apply to nonpension CAPs.

Fiduciary Responsibility and Prudence, Text, Page 96

The text indicates that administrators of registered pension plans and many of their delegates (both internal and external roles) are considered to stand in fiduciary capacity in relation to plan members and other beneficiaries. Anyone who is responsible for managing the assets of another person is considered a fiduciary at common law. In this case, the fiduciary responsibility is implied by the situation, not through legislation.

It is generally agreed that the extent of a Group RRSP sponsor's fiduciary responsibilities depends largely on how it defines its role as agent to the employees. The scope of the fiduciary responsibilities of a Group RRSP sponsor depends on how it defines its role. An employer that takes an active role in the oversight and management of the Group RRSP has a higher fiduciary duty of care. If the employer communicates that it is simply facilitating payroll deduction and requires the employee to make all other decisions, it may have a lesser fiduciary duty of care.

While an employer may take the view that it can reduce its fiduciary risk in a Group RRSP by clearly communicating that its role is simply to act as an agent, that risk remains. This is because those employers that remove themselves from plan oversight and management may actually increase the risk that the Group RRSP will not perform as expected.

The best way for a capital accumulation plan (CAP) sponsor to ensure its fiduciary duties are met, related risks are properly managed and member outcomes are maximized is to develop and implement effective plan governance. This includes adhering to best practice regarding proper oversight, communication and education, providing choices, monitoring fees and encouraging independent advice.

Pension Governance Milestones in Canada, Text, Pages 99-108.

Add to the end of the second paragraph:

2021	CAPSA publishes revised Guideline No. 7, Pension Plan Funding Guideline	This guideline includes expanded content relating to multi-employer pension plans and target pension plans, legislated funding requirements and key considerations for plan sponsors at time of developing a funding policy.
September 2024	CAPSA publishes revised version of Guideline No. 3, Guideline for Capital Accumulation Plans	This guideline reflects regulators' views on the responsibilities of CAP sponsors, administrators and service providers. This includes expectations for CAP sponsors to build a strong governance structure intended to establish clear lines of accountability, reduce risk exposure and support long-term operational stability. It also clarifies expectations surrounding information to be communicated to members.
September 2024	CAPSA publishes Guideline No. 10, Guideline for Risk Management for Plan Administrators	<p>CAPSA Guideline No. 10 focuses on the governance and administration of pension plans, specifically how to ensure that plan administrators are properly managing pension plan assets and operations in the best interest of plan members. It emphasizes that pension plan administrators need to establish clear and effective processes to manage risks, ensure compliance with laws and regulations, and meet the fiduciary duties owed to plan members. The guideline highlights the importance of having appropriate oversight, internal controls and regular reviews to keep the pension plan functioning smoothly and in compliance with regulatory requirements.</p> <p>The guideline encourages pension plan administrators to set up a strong governance framework that includes proper policies, procedures and documentation as well as stresses the importance of transparency and accountability in decision making. By adhering to these principles, administrators can help protect plan members' interests and ensure that pension plans are managed in a responsible and efficient way. The goal is to build a system that minimizes risks and maximizes benefits for plan members, while maintaining regulatory compliance and due diligence.</p> <p>This guideline is intended to complement other CAPSA guidelines that reference risk management, including Guideline No. 4, Pension Plan Governance and Guideline, and No. 7. Pension Plan Funding Guideline.</p>

Legislative Guidance on Pension Governance, Text, Pages 109-111

The requirements described in this section do not apply to nonpension CAPs. Despite the lack of legislative force, many of the policies described in this section are appropriate for the sponsors of nonpension CAPs to consider when developing a governance framework for their plan.

Industry Guidelines Supplement Legislation, Text, Pages 111-113

As with the legislative governance requirements, the CAPSA Pension Plan Governance Guideline and CAPSA Risk Management Guideline for Plan Administrators do not specifically apply to nonpension CAPs, such as Group RRSPs. However, consideration of these guidelines by nonpension plan sponsors may be helpful; a comparison of the Pension Plan Governance Guideline and the CAP Guideline reveals a number of similarities in content and process. While the guidance provided in the Risk Management Guideline is directed to pension plans specifically, the following outlined (particularly those related to the specific topics of cybersecurity; third-party risk; and environmental, social, and governance (ESG) issues) are relevant.

- (a) **Third-party risk:** This is risk to the plan's operational and financial resilience or reputation due to a third party failing to provide goods and services, protect data or systems, or otherwise carry out activities in accordance with the arrangement.
- (b) **Cybersecurity risk:** This is the risk of financial loss, operational disruption or reputational damage from the unauthorized access, malicious and nonmalicious use, failure, disclosure, disruption, modification, or destruction of information technology systems and/or the data contained therein. In the context of a pension plan, cybersecurity risk includes both internal and external risks.
- (c) **Investment risk governance:** This involves identifying the categories and level of investment risk that the plan administrator is willing or expected to take in order to meet the pension promise ensures that the plan's statement of investment policies and procedures (SIP&P) and investment strategies are consistent with the plan's objectives and overall risk appetite, mitigating the impact of unexpected market shocks that could place members' benefits at risk.

- (d) Environmental, social and governance (ESG) risk: Using ESG information to provide financial insight is consistent with an administrator's fiduciary duty. Conversely, ignoring or failing to consider ESG information that might materially affect the fund's financial risk-return profile could be a breach of fiduciary duty.
- (e) Use of leverage: Leverage exists when any technique or strategy is used to increase a pension plan's economic exposure to investment assets beyond what it could achieve by simply investing its capital (or net assets) in securities or other financial assets. In other words, leverage is a means of achieving economic exposure greater than the capital invested. Using leverage therefore increases the importance of managing risk.¹

¹ List items are drawn from CAPSA Guideline No. 10, Risk Management Guideline for Plan Administrators, <https://www.capsa-acor.org/Documents/View/2101>.

Reading

CAPSA Guideline No. 4, Pension Plan Governance Guideline

B



Guideline No. 4: Pension Plan Governance Guideline

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Context for the Guidelines

The Canadian Association of Pension Supervisory Authorities (CAPSA) has designed these guidelines and associated reference tools to help plan administrators meet their **governance** responsibilities.

Published originally in 2004, these guidelines have been used widely by **pension plans** in Canada. The current version includes updated and clarified principles and guidance on implementation of the principles.

Pension Plan Governance

Pension plan governance refers to the structure and processes in place for the effective **administration** of the pension plan to ensure the fiduciary and other responsibilities of the plan administrator are met. CAPSA believes that good pension plan governance is essential if **plan members** and **beneficiaries** are to receive the benefits they are entitled to, and to understand their rights and responsibilities under the pension plan.

The objective of pension plan **governance** is to enable the plan administrator to deliver on the pension promise consistent with the pension plan documents and pension legislation. Pension legislation defines the pension **plan administrator*** as the body responsible for the governance of the pension plan.

Pension Plan Administrator

Pension legislation specifies who may be a plan administrator and identifies the plan administrator's responsibilities. The plan administrator may be any of the following:

- the employer who established the plan,
- a pension committee,
- a board of trustees,
- an insurance company,
- a bargaining agent, or
- another body established or permitted by law.

The party appointed as the plan administrator is usually stated in the plan documents.

The plan administrator may use **delegates** to help carry out governance responsibilities. Delegates may include employees of the plan administrator and external **third party service providers**.

* Please note that defined terms are italicized and bolded when first used. Definitions are in the Glossary of Terms, contained at the end of the guidelines.

Pension Governance System

An effective pension governance system:

- establishes a framework for defining the duties, associated responsibilities and accountabilities for all participants in the governance process,
- covers all facets of pension plan management, including communication, funding, investments and benefit administration, and
- provides careful oversight while enhancing protection for plan members and beneficiaries.

Good pension plan governance:

- is essential for meeting fiduciary and other responsibilities,
- minimizes risks and maximizes efficiency,
- promotes accurate, timely and cost-effective delivery of pension benefits,
- promotes administration of the plan in the best interests of plan members and beneficiaries,
- requires control mechanisms that encourage good decision-making, proper and efficient practices, clear accountability, and regular review and evaluation,
- contributes to positive pension plan performance, and
- helps to demonstrate due diligence on the part of the plan administrator.

Governance Guidelines

This CAPSA Guideline on Pension Plan Governance provides a broad, flexible outline of key pension plan governance principles. Different types and sizes of plans, however, may require different governance practices. Although pension plan administrators need to adapt their governance practices to specific circumstances and resources, we strongly recommend that all plan administrators adopt a governance structure and processes consistent with the principles that follow. The tools and strategies used to reflect these principles may vary depending on the characteristics of each pension plan.

The Guidelines recommend principles for effective pension plan governance. They outline the appropriate roles and responsibilities of the *plan sponsor* only when the plan sponsor is acting as plan administrator. They do not cover the roles and responsibilities of the plan sponsor under general corporate governance principles. Many individuals who have pension plan governance responsibilities also have responsibilities to the plan sponsor. Consequently, those with governance responsibilities must clearly understand the different roles and responsibilities for each. Further, when taking actions that affect the pension plan, they must carefully document the actions for both sets of responsibilities. In particular, whenever the two roles are in a conflict of interest, the administrator must act in the best interests of plan members and beneficiaries.

CAPSA encourages all pension plan administrators in Canada to assess whether their current pension plan governance structures and processes are effective and to strive for the best practices set out in the Guidelines.

Note, however, that the Guidelines are not intended to create additional rights and responsibilities for any party to a pension plan. Though voluntary, they are meant to help plan administrators achieve and maintain good pension plan governance.

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CAPSA Guidelines

This CAPSA Guideline on Pension Plan Governance provides overall guidance to assist plan administrators of all types and sizes of pension plans in achieving and maintaining good governance. Plan administrators and other governance participants may also wish to reference other CAPSA Guidelines and publications that are appropriate to the plan's circumstances.

Each of the CAPSA Guidelines and other publications can be obtained through CAPSA's website (www.capsa-acor.org) under "[CAPSA Guidelines](#)".

CAPSA Pension Plan Governance Principles

Principle 1: Fiduciary responsibility

The plan administrator has fiduciary responsibilities to plan members and beneficiaries. The plan administrator may also have other responsibilities to other *stakeholders*.

Principle 2: Governance framework

The plan administrator should establish and document a governance framework for the administration of the plan.

Principle 3: Roles and responsibilities

The plan administrator should clearly describe and document the roles, responsibilities, and accountabilities of all participants in the pension plan governance process.

Principle 4: Performance monitoring

The plan administrator should establish and document performance measures to monitor the performance of participants in the governance and administration of the plan.

Principle 5: Knowledge and skills

The plan administrator, directly or with delegates, has a duty to apply the knowledge and skills needed to meet the plan administrator's responsibilities.

Principle 6: Governance information

The plan administrator should establish and document a process to obtain and provide to governance participants appropriate information to meet fiduciary and other responsibilities.

Principle 7: Risk management

The plan administrator should establish and document a framework and ongoing processes, appropriate to the pension plan, to identify and manage the plan's risks.

Principle 8: Oversight and compliance

The plan administrator should establish and document appropriate processes to ensure compliance with the legislative requirements and pension plan documents.

Principle 9: Transparency and accountability

The plan administrator should establish and document a communication process with the aim to be transparent and accountable to plan members, beneficiaries and other stakeholders.

Principle 10: Code of conduct and conflict of interest

The plan administrator should establish and document a code of conduct, incorporating a policy to manage conflicts of interest.

Principle 11: Governance review

The plan administrator should establish and document a process for the regular review of the pension plan's governance framework and processes.

CAPSA Pension Plan Governance Guidelines

Principle 1: Fiduciary responsibility

The plan administrator has fiduciary responsibilities to plan members and beneficiaries. The plan administrator may also have other responsibilities to other stakeholders.

A fiduciary relationship is one of trust between two or more parties where one (or more) person(s) (the fiduciary[ies]) has an obligation to act in the best interests of the other party.

(a) Fiduciary responsibilities

Fiduciary obligations are owed when legislation imposes such duties or when:

- i. a plan administrator and/or any delegates can exercise discretionary power to affect the interests of members or beneficiaries;
- ii. a plan administrator and/or any delegates can unilaterally exercise that power so as to affect the interests of the members or beneficiaries; and
- iii. the members and/or beneficiaries are in a position of vulnerability at the hands of the plan administrator and/or any delegate.

The plan administrator and delegates must act honestly, in good faith and in the best interests of plan members and beneficiaries of the pension plan as part of their fiduciary responsibilities.

In its fiduciary role, the plan administrator's responsibilities include:

- treating members and beneficiaries impartially and considering the interests of those members currently accruing a pension, those who are in receipt of a pension and any others who may be entitled to a benefit from the plan,
- acting with the care, skill and diligence of a prudent person,
- interpreting the plan terms fairly, impartially and in good faith,
- managing conflicts of interest, and
- within the scope of such duties and its authority, ensuring that members and beneficiaries receive promised benefits.

The pension governance process should help the plan administrator carry out its fiduciary and other responsibilities. Although plan administrators may delegate certain tasks of the plan administrator to third parties, the administrator retains fiduciary responsibility.

(b) Other responsibilities

The plan administrator may also have other responsibilities to other stakeholders.

When employers, bargaining agents, or their nominees act as plan administrators, they must understand the difference between their plan administrator and other roles, and act accordingly. Employers and bargaining agents should follow the principles in these Guidelines when acting as plan administrator.

Principle 2: Governance framework

The plan administrator should establish and document a governance framework for the administration of the plan.

The governance framework should:

- i. identify the duties and functions that need to be performed for the plan administrator to meet its fiduciary and other responsibilities; and
- ii. determine and demonstrate on an on-going basis how the plan administrator will meet such fiduciary and other responsibilities.

The plan administrator may wish to consider sharing relevant documents related to the governance framework with the plan members, beneficiaries and other stakeholders beyond those legally required.

Principle 3: Roles and responsibilities

The plan administrator should clearly describe and document the roles, responsibilities, and accountabilities of all participants in the pension plan governance process.

The plan administrator:

- is ultimately responsible and accountable for managing the plan;
- may delegate operational management tasks, but should provide oversight to ensure responsibilities are fulfilled;
- is responsible for selecting the delegates and monitoring the actions of delegates;
- is responsible for managing any conflicts of interest that arise; and
- should ensure that the pension governance structure, roles and responsibilities, accountabilities and reporting relationships (i.e. chain of delegation) are clearly documented and communicated to all participants in the pension plan governance process.

When the same person or entity performs both pension plan administration and corporate functions, there should be a clear recognition, understanding, and documentation of the different roles and responsibilities of each function. When a decision related to the pension plan is made, it should be clearly documented, and its rationale and the role under which it is taken should be included.

Principle 4: Performance monitoring

The plan administrator should establish and document performance measures to monitor the performance of participants in the governance and administration of the plan.

The plan administrator is responsible for:

- establishing and documenting appropriate performance measures;
- regularly monitoring the performance of all participants in the governance process, including the plan administrator, internal staff and delegates;
- regularly reviewing the appropriateness of such performance measures; and
- establishing procedures and taking follow-up actions to correct inadequate performance.

Since performance evaluations need to be based on objective, impartial assessments, the plan administrator may require independent professional assessments.

Principle 5: Knowledge and skills

The plan administrator, directly or with delegates, has a duty to apply the knowledge and skills needed to meet the plan administrator’s responsibilities.

The plan administrator is ultimately responsible for the governance and the administration of the pension plan. In order to apply the knowledge and skills needed to meet the plan administrator’s responsibilities, the plan administrator should identify the relevant qualifications, resources and experience necessary to meet these responsibilities. The plan administrator should either obtain appropriate support to directly fulfill the administration role or delegate the function to external experts.

The plan administrator and delegates in the governance structure should together possess and apply the knowledge and skills to fulfill the plan administrator’s responsibilities.

The plan administrator should, on appointment and on an ongoing basis, consider whether all delegates have the relevant qualifications, resources and experience to carry out their function and have access to appropriate education.

Principle 6: Governance information

The plan administrator should establish and document a process to obtain and provide to governance participants appropriate information to meet fiduciary and other responsibilities

Processes should exist so that the plan administrator obtains the necessary information to meet its fiduciary and other responsibilities.

The plan administrator should ensure that delegates have appropriate information related to the pension plan that is needed to carry out their responsibilities.

Principle 7: Risk management

The plan administrator should establish and document a framework and ongoing processes, appropriate to the pension plan, to identify and manage the plan's risks.

A plan's risk management framework should provide reasonable assurance for the achievement of the plan's objectives through:

- a) identifying the risks;
- b) assessing and prioritizing the risks;
- c) ensuring a clear understanding of the responsibilities for the management of the risks;
- d) accepting the risk or designing and implementing an appropriate risk-mitigating response;
- e) monitoring and evaluating the risks and effectiveness of the responses and risk management processes generally; and
- f) documenting the risk management processes.

Principle 8: Oversight and compliance

The plan administrator should establish and document appropriate processes to ensure compliance with the legislative requirements and pension plan documents.

Every pension plan should have documented processes to enable compliance with legislative requirements and to ensure functions related to the administration and governance of the pension plan fall within the plan terms, plan administrative policies, and legislative requirements.

Principle 9: Transparency and accountability

The plan administrator should establish and document a communication process with the aim to be transparent and accountable to plan members, beneficiaries and other stakeholders.

The plan administrator should establish a communication process, taking into account both fiduciary and other responsibilities, so that plan members, beneficiaries and other stakeholders have access to information about the plan as required by applicable legislation. In addition, the plan administrator should consider what, if any, other information about the plan will be made available to plan members, beneficiaries and other stakeholders.

Plan administrators should inform pension plan members and beneficiaries of the process for asking questions and raising concerns.

When communicating with plan members, the plan administrator should:

- a) communicate how important decisions about the plan are made; and,

- b) inform them of the risks, benefits, options, and responsibilities of membership in the plan.

In establishing and documenting the communication process, the plan administrator should consider the different interests of stakeholder groups, and whether communication methods might be adapted to meet those interests more effectively.

Principle 10: Code of conduct and conflict of interest

The plan administrator should establish and document a code of conduct, incorporating a policy to manage conflicts of interest.

The plan administrator should establish and periodically review a documented code of conduct applicable to the administration of the plan. The code of conduct should set out expected behaviours. It should also include or incorporate procedures to identify, monitor and address material conflicts of interest, both actual and perceived.

Plan administrators should ensure delegates have an appropriate code of conduct that incorporates a policy to manage conflicts of interest, as well as processes for appropriate disclosure of conflicts and breaches of the code of conduct.

Principle 11: Governance review

The plan administrator should establish and document a process for the regular review of the pension plan's governance framework and processes.

The plan administrator should regularly review the pension plan's governance framework and processes and establish a timeframe for the review. The attached *Pension Plan Administrator Governance Self-Assessment Questionnaire* has been developed to assist the plan administrator in carrying out a governance review.

The governance review may result in the plan administrator setting goals and objectives for the future and modifying its policies and practices to improve overall pension plan governance. Where the review identifies governance shortfalls, the review process should also identify and implement methods to address them.

The plan administrator may wish to communicate the result of the governance review to plan members, beneficiaries and other stakeholders.

Glossary of Terms

<i>administration</i>	the oversight, management and operations of the pension plan and its pension fund including the investment of the assets of the pension fund.
<i>beneficiaries</i>	individual, group, body or entity entitled to a benefit under the terms of a pension plan other than plan members.
<i>delegate*</i>	any party who carries out aspects of the administration of the pension plan and investment of the pension fund (including a committee or third party service provider).
<i>plan administrator</i>	the individual, group, body or entity that is responsible for the oversight, management and operations of the pension plan and pension fund.
<i>plan member(s) or member(s)</i>	all current and former employees, including retired employees, entitled to benefits under the pension plan.
<i>plan sponsor</i>	the individual or entity that is responsible for determining the design of the pension plan, setting the benefit structure for various classes of members, and establishing, amending or terminating the pension plan.
<i>third party service provider</i>	the entity (or entities) or individual(s) that is/are retained by the plan administrator to perform some or all of the delegated duties associated with the pension plan and the pension fund that the administrator is required to perform.
<i>stakeholder</i>	a party who has an interest in decisions and actions about the pension plan. It includes plan members and beneficiaries, and may include others who may be entitled to pension plan benefits in circumstances such as marriage breakdown. Depending on the circumstances of the pension plan, it may also include the plan administrator, employers, collective bargaining agents, employee and employer associations, and others.

* In Québec, there is also the notion of "delegatee", which is distinct from that of the "delegate". The delegatee has, with respect to delegated functions, the same responsibilities as the plan administrator.

Reading

C

CAPSA Guideline No. 3, Guidelines for Capital Accumulation Plans (CAP Guideline)



Guideline No. 3

Guideline for Capital Accumulation Plans

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SECTION 1: INTRODUCTION

This Canadian Association of Pension Supervisory Authorities (CAPSA) guideline updates and replaces the [2004 Guidelines For Capital Accumulation Plans](#) issued by the Joint Forum of Financial Market Regulators. It reflects the expectations of regulators regarding the operation of a capital accumulation plan (CAP), regardless of the regulatory regime applicable to the plan. It is intended to support the development of industry best practices.

This guideline is also relevant where CAP sponsors have chosen to offer retirement income options as part of or as an extension to their CAPs. Many of the administration, investment and communication principles will apply equally in the accumulation and decumulation phases.

Within this guideline, CAPSA has made an effort to be consistent, where possible, with the other guidelines it has issued. All CAPSA guidelines can be accessed by going to the CAPSA [website](#).

This CAP guideline applies to all CAPs, as that term is defined in this guideline, however CAPSA acknowledges that the application of this guideline is flexible and will vary depending on the nature (size, complexity, and other characteristics) of the CAP.

1.1 THE INTENT OF THIS GUIDELINE

The intent of this guideline is to outline and clarify the regulators' views on:

- i. the responsibilities of CAP sponsors, administrators, service providers and CAP members;
- ii. industry best practices in the maintenance and administration of a CAP; and
- iii. the information that should be provided to CAP members.

This guideline does not replace or modify any legal requirements applicable to particular CAPs.

1.2 DEFINITIONS OF TERMS USED IN THIS GUIDELINE

1.2.1 Capital Accumulation Plan (CAP)

A "CAP" is a tax assisted investment or savings plan or program where members make decisions in respect of the investment of their individual accounts among two or more investment options selected by the CAP sponsor. A CAP may be established by an employer, trade union or other association, board of trustees, licensed administrator of a Pooled Registered Pension Plan (PRPP) or Voluntary Retirement Savings Plan (VRSP), or any combination of these entities for the benefit of its employees or members, or the employees of participating employers.

Examples of a CAP with a retirement savings/income focus may include the following plans or arrangements provided for employees or members: defined contribution pension plan (DCPP) with or without post-employment variable benefits options, registered retirement savings plan (RRSP), deferred profit-sharing plan (DPSP), locked-in retirement account (LIRA), registered

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retirement income fund (RRIF), life income fund (LIF), PRPP, VRSP, and Tax Free Savings Account (TFSA). Examples of a CAP without a retirement savings/income focus include registered education savings plan (RESP) and First Home Savings Account (FHSA).

1.2.2 CAP Sponsors

The “CAP sponsor” is the entity that establishes the CAP and is responsible for the choice of investment options offered to CAP members or has assumed such responsibility for an existing CAP. The following table is a summary of possible CAP sponsors by common plan types.

Table: CAP Sponsors by Plan Type

Type of account	Licensed Administrator	Employer or Former Employer	Trade Union or Other Association	Financial Institution	Board of Trustees/Pension Committee
LIF/RRIF/LIRA		✓	✓	✓	
PRPP/VRSP	✓				
DCPP ¹		✓			✓
RRSP		✓	✓	✓	
DPSP		✓			
RESP		✓	✓	✓	
FHSA		✓	✓	✓	
TFSA		✓	✓	✓	

1.2.3 Service Providers

“Service providers” include any provider of services or advice with whom the CAP sponsor has an agreement for the performance of duties relating to the establishment and/or the ongoing operation of a CAP. Examples include record keepers, investment managers and investment advisors. CAP sponsors may refer CAP members to the service providers to provide information and assist members with CAP-related decisions and with making their investment.

1.2.4 CAP Members

“CAP members” are individuals who have an individual account under a CAP. These individuals may include employees or former employees, self-employed individuals, trade union or other association members and in certain cases, their surviving spouses or common law partners.

¹ Under pension legislation, the duties of the employer sponsoring a DCPP are distinct from the duties of the DCPP plan administrator. Where used in this guideline, the term “CAP sponsor” includes a DCPP administrator, unless otherwise indicated.

1.2.5 Investment Funds

For the purposes of this guideline only, an “investment fund” means a mutual fund (e.g., a redeemable fund or an exchange-traded fund (ETF), non-redeemable investment fund, segregated fund or similar pooled investment product made available to members under the CAP for the investment of their CAP assets or payment of retirement income).

The above definition is intended to broadly reflect the range of investment options that may generally be considered to be investment funds across securities, insurance and pension sectors.

1.2.6 Investment Options

An “investment option” means an investment fund or other type of investment made available to members under the CAP.

1.3 RESPONSIBILITIES OF CAP SPONSORS, SERVICE PROVIDERS, AND CAP MEMBERS

1.3.1 The CAP Sponsor

Pension legislation sets out a duty of care for DCPP administrators². All CAP sponsors have responsibilities to CAP members which may in some instances include fiduciary responsibilities. The nature and extent of a CAP sponsor’s responsibilities depends on the type of CAP and its characteristics.

In maintaining a CAP, it is expected that the CAP sponsor will perform (or engage third party service provider(s) to perform) the tasks outlined in this guideline. Even where CAP sponsors have engaged service providers to carry out certain tasks or functions, the CAP sponsor retains ultimate responsibility for overseeing their CAP and should be engaged in fostering the achievement of the intended member outcomes.

The CAP sponsor is responsible for items such as:

- i. setting up the CAP;
- ii. determining the key features of the CAP, including automatic features, if any;
- iii. selecting service providers, if any;
- iv. selecting investment options and investment funds;
- v. maintaining records;
- vi. introducing the CAP and providing access to ongoing education to CAP members;
- vii. providing plan communications to CAP members;
- viii. providing CAP member access to decision-making tools and investment information;
- ix. maintaining oversight of the CAP, including the performance monitoring and oversight of

² A DCPP administrator has fiduciary responsibilities to plan members and beneficiaries. They may also have other responsibilities to other stakeholders (for more information see [CAPSA Guideline No. 4: Pension Plan Governance Guideline](#)).

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- service providers and investment options, the review of fees and expenses, and of member education materials and decision-making tools;
- x. providing members with access to education on the options available upon their termination or retirement (as applicable); and
- xi. terminating the CAP.

In the sections that follow, each of the above responsibilities is addressed in detail.

It is recognized that in many CAP arrangements the CAP sponsor relies heavily on the knowledge and capabilities of one or more service providers. In those situations, the CAP sponsor's primary activities with respect to the CAP are likely to involve communication with its members and supervision of the performance of its service providers and investments.

1.3.2 Service Providers

The service provider and the CAP sponsor should clearly define and document the tasks or functions the service provider is agreeing to perform.

Service providers engaged by the CAP sponsor must have the appropriate level of knowledge and skill to perform the tasks they agree to perform.

To the extent that a service provider agrees to perform tasks or functions within the areas of responsibility of the CAP sponsor, the service provider should follow this guideline. Any activities not carried out by a service provider must be carried out by the CAP sponsor.

Each service provider is expected to ensure that it complies with applicable laws as well as carrying out any commitments made to the CAP sponsor or CAP members.

Service providers that interact with CAP members should clearly inform CAP members whether they are providing investment advice. Service providers should inform the CAP sponsor, and where appropriate CAP members, if the service provider will monetarily benefit, beyond the fees otherwise disclosed, from a decision made by the CAP sponsor or CAP members.

1.3.3 CAP Members

CAP members are expected to utilize CAP sponsor provided materials and information to help them understand all aspects of their participation in a CAP. CAP members should strive to understand their plan, and must make decisions regarding their contributions to, investments in and withdrawals from the CAP. CAP members bear the investment risk inherent in a CAP.

CAP members should obtain investment advice from a qualified individual in addition to using information or tools that may be provided by the CAP sponsor or service provider.

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Some key CAP member responsibilities include:

- informing themselves about the CAP's features and terms and their rights and obligations as participants in the CAP;
- making decisions about how much to contribute (where the CAP member can make this choice), and how much to allocate to any particular investment option;
- evaluating the automatic or default features of the CAP (e.g., investment options, contribution rates) and deciding whether to accept application of these features or make other choices;
- using the education materials and tools made available by the CAP sponsor (and service providers); and
- determining, if applicable, how, and how much to withdraw annually for retirement income and deciding which decumulation option(s), if applicable, will best suit their goals.

A more fulsome list of CAP member responsibilities is found under [Section 3.1.2 Outlining the Responsibilities of CAP Members](#).

SECTION 2: SETTING UP A CAP

2.1 GENERAL

2.1.1 Defining the Purpose of a CAP

CAP sponsors should clearly document the purpose of the CAP in terms of its intended outcome for members. It is crucial for CAP sponsors to have a clear understanding of the plan's purpose to assist in prioritizing decisions with the greatest impact on members' outcomes.

The terms of the plan should be consistent with its purpose and what is communicated to CAP members.

Some of the purposes for which a CAP sponsor may establish a CAP are:

- income at retirement;
- tax efficient compensation;
- profit sharing; and
- savings for other financial goals such as education, home purchase, etc.

Any decision to change the purpose of the plan should be documented and communicated to CAP members.

For DCPPs in particular, it is important to note that the primary purpose of the DCPP is to enable members to eventually receive lifetime retirement income from their savings³.

2.1.2 Setting up a Governance Framework

The CAP sponsor should establish and document a governance framework for administration of the plan appropriate for the size, complexity, and other characteristics of both the CAP and the CAP sponsor, which may include:

- i. a description of the roles, responsibilities and accountabilities of any stakeholders or parties involved in the governance of the plan (e.g., employer, union, board of directors, pension committee, governance committee, service providers, plan members);
- ii. a communication process, including a process for addressing member complaints;
- iii. a code of conduct, including a policy to manage conflicts of interest;
- iv. a risk management framework (as may be applicable to the CAP);
- v. a framework for the regular review of the performance of service providers, including investment managers (with articulated performance criteria); and
- vi. a process for the regular review of the governance process.

³ For registration of a pension plan under the *Income Tax Act*, a condition is that "the primary purpose of the plan is to provide periodic payments to individuals after retirement and until death in respect of their service as employees" (*section 8502(a) Income Tax Regulations*).

2.1.3 Automatic Features

The CAP sponsor may consider whether to establish one or more automatic features. Depending on the purpose of the CAP, there may be benefits to the inclusion of automatic features, such as (i) increased participation in a plan, (ii) early and greater contributions, and (iii) appropriate investment selection, which may lead to greater positive member outcomes.

These automatic features may include:

- i. automatic enrollment;
- ii. automatic escalation of CAP member contributions;
- iii. automatic rebalancing of investments;
- iv. default electronic communication;
- v. default investment options; and
- vi. default elections at termination of employment and retirement.

The automatic features within the CAP should be disclosed to CAP members upon enrollment in, or amendment to, the plan with the ability to opt-out if applicable. Where an automatic feature will have a direct impact on a member, reasonable advance notice should be provided where possible.

2.1.4 Deciding whether to use Service Providers

The CAP sponsor should decide if it has the necessary knowledge and skills to carry out the responsibilities set out in this guideline and to comply with all relevant legal requirements. Where the CAP sponsor does not have the necessary knowledge and skills to carry out certain tasks or functions within its responsibilities, service providers should be used.

Where the CAP sponsor chooses to engage a service provider for certain tasks or functions, the CAP sponsor retains the ultimate responsibility for maintaining and overseeing the CAP, including reviewing the performance of those service providers (more information on this is provided in [Section 6: Maintaining Oversight of a CAP](#)).

2.1.5 Selecting Service Providers

After considering its specific needs, the CAP sponsor should establish criteria for the selection of service providers and use these to select any service providers it engages.

Factors for the CAP sponsor to consider when establishing criteria for selecting (or changing) service providers include:

- i. potential conflicts of interest;
- ii. reputation;
- iii. professional qualifications or designations;
- iv. historical and expected stability of the service provider team;
- v. experience;
- vi. specialization in the type of service to be provided;
- vii. controls in place to secure CAP members' personal data;

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- viii. consistency of service offered in all geographical areas in which members reside;
- ix. quality, level and continuity of services offered;
- x. competitiveness and reasonableness of the cost of services provided; and
- xi. appropriate level of access to information from the service provider to allow the CAP sponsor to meet CAP member disclosure requirements as outlined in this guideline.

Where the CAP sponsor delegates tasks or functions to a service provider, the CAP sponsor should ensure that the applicable roles and responsibilities of the CAP sponsor and service provider are documented.

2.2 INVESTMENT OPTIONS

2.2.1 Selecting Investment Options

The CAP sponsor should select investment options to be made available in the plan. The investment options for CAPs may be limited by legislation. CAP sponsors must comply with all applicable legal requirements when choosing investment options.

Examples of investment options include:

- investment funds;
- guaranteed investment certificates (GICs);
- guaranteed term or lifetime annuity contracts;
- employer securities; and
- other securities.

Factors a CAP sponsor should consider when choosing investment options, including any default investment option that may be selected by the CAP sponsor (see [Section 2.2.4](#)), include the:

- i. purpose of the CAP and its intended member outcomes;
- ii. number of investment options to be made available;
- iii. risk return profile associated with the investment options;
- iv. competitiveness and reasonability of fees associated with the investment options, and whether those fees provide value for CAP members;
- v. CAP sponsor's ability to assess and review the options initially and on a periodic basis;
- vi. demographics and observed behaviors of CAP members;
- vii. degree of diversification among the investment options; and
- viii. liquidity of the investment options.

The CAP sponsor is responsible for monitoring the ongoing performance of each investment option in the plan and reviewing the appropriateness of the investment option line-up, including the default investment options (see [Section 6: Maintaining Oversight of a CAP](#)).

In determining the investment option line-up design, the CAP sponsor should consider that the more investment options that are available, the greater the governance burden will be on the CAP sponsor in their oversight of these options and the more complex member

decision-making will be.

2.2.2 Selecting Investment Funds

When the investment options chosen by the CAP sponsor include investment funds, the following factors should also be considered when selecting the funds that are to be made available:

- i. the attributes of the investment funds such as the investment objectives, investment strategies, investment risks and historical and expected performance;
- ii. the investment manager's investment and risk management processes;
- iii. the criteria outlined for the selection of service providers (see [Section 2.1.5 Selecting Service Providers](#)) should be applied in the selection of the investment manager(s) or service provider of the investment funds; and
- iv. the competitiveness and reasonableness of fees relative to the investment fund's expected risk and return profile.

2.2.3 Transfers Among Investment Options

CAP members should be allowed reasonable opportunities to transfer among the investment options available in the plan. Any administrative costs incurred in making the transfer may be charged to members initiating the transfer, if the contract provides for it, and should be communicated to members in advance of incurring the charge whenever possible.

2.2.4 Policy Regarding Failure to Make Investment Choice

Given that CAP members bear the investment risk when participating in a CAP, they should utilize the education materials and tools the CAP sponsor provides, to make their own investment choices from the options available. However, the CAP sponsor should establish a policy that outlines what happens if a CAP member does not make an investment choice within a specified period of time and should describe the default investment option that will be applied to the member's assets if the member does not make a choice. The policy should be disclosed to the CAP member, when possible, before any action is required.

Factors CAP sponsors should consider in establishing the default investment option (or default option):

- i. the purpose of the CAP and intended member outcomes;
- ii. the level of risk associated with the default option;
- iii. the competitiveness and reasonability of fees associated with the default option, and whether those fees provide value for CAP members;
- iv. the demographics and observed behavior of CAP members;
- v. the degree of diversification provided by the default option; and
- vi. the liquidity of the default option.

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The investment strategy of the default option should be aligned with the time horizon and purpose of the CAP. The CAP sponsor should consider a default option that could be suitable as the core of a member's investments, not just in the context of an absence of member investment choice.

2.3 MAINTENANCE AND RETENTION OF RECORDS

The CAP sponsor should prepare and maintain the CAP records related to the member accounts and the administration and governance processes of the CAP, either internally or through a service provider. The CAP sponsor should consider controls necessary to secure CAP members' personal data.

The CAP sponsor should also establish a record retention policy for the plan. The contents of a record retention policy should include:

- a description of the types of records to be retained;
- how the records will be retained and secured; and
- how long various types of records should be retained.

SECTION 3: EDUCATING MEMBERS ABOUT THE CAPITAL ACCUMULATION PLAN

The CAP sponsor should adopt an ongoing member education strategy that is geared towards the purpose and intended outcome of the CAP and designed to improve member decisions and outcomes. For CAPs with a retirement savings/income focus, CAP sponsors are encouraged to adopt practices that will help members understand the retirement income their projected individual account balance is likely to provide.

CAP members' varying levels of financial literacy and engagement, financial capacity to save, and ability to access information and technology are all factors that contribute to the challenges members face in engaging with their CAP and making informed decisions.

The relatively high degree of trust that exists between members and the CAP sponsor can be valuable when seeking to engage members. As such, the CAP sponsor is encouraged to engage members in an ongoing education process. The CAP sponsor could also consider incorporating processes such as sending materials from their internal communication channels or incorporating branding into communication activities.

The CAP sponsors should periodically review the effectiveness of the CAP's education strategy, materials, resources, and tools, using criteria that are consistent with the purpose and intended outcomes of the CAP.

Member communication and education considerations in this and subsequent sections are not limited to a member's initial enrollment but should be considered as part of the CAP's education strategy.

3.1 GENERAL

3.1.1 Information on the Nature and Features of the CAP

When an individual becomes eligible to enroll in a CAP, as well as on an ongoing basis, the CAP sponsor should provide, or provide access to, current information regarding the purpose of the CAP, its intended outcomes, features, and how members can positively impact their own potential outcomes.

The information provided or made available to CAP members where applicable, should include, but not be limited to:

- i. enrolment information, including as applicable:
 - a. how and when to enroll;
 - b. any eligibility waiting period;
 - c. the benefits of not delaying enrollment;
 - d. how to opt out of the plan;
 - e. the rules/opportunities for enrolling at a later date if the individual opted out; and
 - f. the rules/opportunities for re-enrolling if an individual has previously terminated

- membership.
- ii. contribution levels and/or options and other contribution features, if any, including opportunities to obtain matching contributions or to make voluntary contributions;
- iii. automatic features, if any;
- iv. ability to transfer assets from other plans into the CAP;
- v. investment options available, including the intended objective and risk profile associated with each investment option;
- vi. communicating the requirement for CAP member to choose among the investment options;
- vii. ability and process around choosing and changing investment options, including timing of changes, restrictions including nature thereof, and any applicable fees;
- viii. the default investment option and its risk profile and intended objective;
- ix. how to access investment information and other decision-making tools;
- x. description of how fees may impact member potential outcomes;
- xi. how to terminate membership;
- xii. the retirement income options available within the CAP (as applicable);
- xiii. explanation of how to transfer money to products outside of the CAP;
- xiv. contact information of service providers with whom CAP members interact, if applicable; and
- xv. how and when members will receive communication or notice of availability of information about their accounts.

CAP information, education resources and tools discussed in this guideline should generally be made available to CAP members. CAP sponsors should consider promoting the use of certain sets of related education material at relevant times including plan specific deadlines. The CAP sponsor could consider customizing educational materials for segments of the membership that may share similar traits, such as those approaching retirement or those newly hired.

When communicating with plan members, CAP sponsors and service providers should strive to use plain language. All CAP sponsors may find the [CAPSA DCCP - Member Guide](#) a useful reference when developing or reviewing their member education strategy.

3.1.2 Outlining the Responsibilities of CAP Members

CAP members bear the investment risk inherent in a CAP and are expected to be involved in the management of their CAP account. To ensure that CAP members understand the CAP and their critical role in it, the CAP sponsor should provide, or provide access to, information outlining CAP members' responsibilities under the CAP.

The key responsibilities of CAP members to be clearly communicated to CAP members include the need to, where applicable:

- i. join the plan;
- ii. understand the nature and features of the plan;
- iii. make contribution decisions, including how much to contribute and when;
- iv. invest their contributions and investment balances, making decisions among

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- v. understand how the investment risk associated with their investment choices directly influence their potential outcomes;
- vi. have knowledge of the automatic or default features (e.g., investment options, contribution rates) and decide whether to accept application of these features;
- vii. use the education materials, resources, and decision-making tools the CAP sponsor provides;
- viii. read and retain their statement, and other records and communications provided or made available to them;
- ix. understand fees, expenses, penalties and related restrictions that may be applicable from time to time;
- x. inform themselves about how participation in the plan fits within the wider context of their personal financial situation, including tax implications particularly when invested in multiple plans;
- xi. obtain investment advice or financial planning advice from a qualified adviser, including regularly reviewing their investment selections, considering any changing life circumstances, how and how much to withdraw annually from retirement income, and which decumulation option(s), if applicable, will best suit the member's goals;
- xii. ensure the ongoing accuracy of their personal and contact information and beneficiary designations on file with the CAP sponsor and service provider; and
- xiii. select an appropriate option upon termination of active participation in the CAP, within the timeframe provided.

3.2 INVESTMENT OPTIONS

The CAP sponsor should provide, or make available to CAP members, sufficient detail about the investment options available in the plan so they can make informed decisions. This information should include:

- i. a description of the investment option including its name, type of investment and the investment objective;
- ii. a description of the risks associated with the investment option;
- iii. any investment restrictions or limitations associated with the investment option;
- iv. the fees and expenses associated with each investment option;
- v. if available, the historical performance of the investment option, the historical performance of an appropriate benchmark and a statement that past performance may not be repeated and is not necessarily indicative of future performance; and
- vi. if applicable, where a member can obtain more information about the investment option, including portfolio holdings and other detailed disclosure.

3.2.1 Investment Funds

For each investment fund made available as an investment option in the plan, the CAP sponsor should provide, or provide access to, the following additional information for CAP members:

- i. names of all investment management firms responsible for the day-to-day management of the fund assets;
- ii. the types of investments the fund may hold; and
- iii. the risk-return profile of the fund.

3.2.2 Employer Securities

When securities of the employer or a related party of the employer are permissible investments under the applicable legislation and are included as an investment option in the plan, the CAP sponsor should provide the following additional information to CAP members:

- i. the relationship between issuer and employer if the issuer of the security is different from the employer of the CAP members, and a description of the relationship between the issuer and the employer;
- ii. the risks associated with investing in a single security; and
- iii. the risks associated with both being employed by an employer and investing in its, or a related party's, securities.

3.3 TRANSFERS BETWEEN INVESTMENT OPTIONS

The CAP sponsor should provide, or provide access to, information for CAP members about how to make transfers between investment options. This information should include, but not be limited to:

- i. any required forms and where the member should send them;
- ii. the methods available for making transfers;
- iii. any costs that may be incurred for transferring among investment options;
- iv. any restrictions or implications with the number of transfers among investment options a member is permitted to make within a given period;
- v. any specific account restrictions due to suspension of trading; and
- vi. the rules pertaining to any automatic transfers between investment funds that may be triggered (e.g., if the plan offers auto-rebalancing or auto-transfer in lifecycle funds).

Details of the rationale and the transfer restrictions associated with the suspension of trading in the investment options should be provided or made available before the suspension occurs (where reasonably possible).

3.4 DESCRIPTION OF FEES AND EXPENSES

Members should be provided with information regarding the level of fees and expenses payable by the member or through the member's account, including asset-based fees and operating expenses that are payable with respect to each investment option.

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This information should be provided or made available upon the introduction of the CAP, when there is a material change to the fees and expenses, and at least annually thereafter. Fee and expense information is relevant for CAP members when comparing in-plan investment options relative to other opportunities outside of the CAP.

The types of fees associated with the member account and their activities in a CAP may include:

- i. transaction fees incurred when investments are bought, sold/redeemed or transferred;
- ii. costs associated with accessing or using any of the investment information or decision-making tools or investment advice the CAP sponsor arranges;
- iii. investment management fees;
- iv. operating expenses, generally including fund costs associated with administration, audit, legal, custody, financial statement and other reporting, filings, taxes, and transfer agency fees; and
- v. service provider fees and expenses, including account, trustee, brokerage, custodial, record keeping fees and fees for other services from service providers.

Fee and expense information should be provided in plain language. It should include descriptions of the services provided for those fees and expenses as well as the long-term impact that fees and expenses may have on the member's individual account balance and their potential retirement income (where applicable). In considering fees, CAP members should review the level of fees compared to the service provided.

Details should be provided where the additional detail would impact member decision-making. Fees and expenses that are incurred by members by virtue of member choices (e.g., transfer fees, additional investment information or tools, excessive trading) should be disclosed separately. Any flat fees charged to the members should also be shown separately. Investment fund management fees and operating expenses, which are normally included in the management expense ratio can be disclosed in aggregate. Service provider fees similarly charged as a percentage of assets may be aggregated with the investment fund management expense ratio.

The CAP sponsor should work with the service provider to determine how best to present the fee information to ensure it is clear and understandable to members.

3.5 ADDITIONAL INFORMATION

The CAP sponsor should provide the CAP members with an outline of how they can access additional information related to the plan and a description of the type of information that is available.

SECTION 4: DECISION-MAKING TOOLS AND INVESTMENT ADVICE FOR CAP MEMBERS

The CAP sponsor should provide, or provide access to, investment information and decision-making tools to assist CAP members in determining and achieving their desired outcomes, including how to invest their CAP assets, and how much and when to contribute to the CAP (as applicable).

4.1 GENERAL

To decide what investment information and decision-making tools to provide or make available to CAP members, and how and when they should be provided or made available, the CAP sponsor should consider:

- i. the purpose, type and particular features of the CAP;
- ii. the investment and other decisions CAP members must make;
- iii. the cost of the investment information and decision-making tools;
- iv. the location, financial literacy and demographics of the CAP members;
- v. the extent of CAP members' access to, and familiarity with, computers, mobile devices, and the internet; and
- vi. any applicable legal requirements concerning decision-making tools or disclosure of information to CAP members.

The investment information and decision-making tools the CAP sponsor provides, or makes available, need not address the entire financial circumstances and planning needs of the CAP members. However, the CAP sponsor may consider tools that capture members' other personal savings and/or government benefits to provide members with a holistic picture of their potential income at retirement.

4.2 INVESTMENT INFORMATION

The CAP sponsor should provide, or provide access to, investment information to assist CAP members in making investment decisions within the plan.

Examples of investment information include,

- i. glossary of terms used;
- ii. information regarding the relative level of expected risk and return associated with different investment options and funds, including a description of guarantees of the investment options;
- iii. information on asset allocation, building and rebalancing portfolios, and the importance of compounding returns and time horizon;
- iv. description of the default investment option;
- v. performance reports for any investment funds and other investment options offered in the CAP; and
- vi. fees and expenses associated with each investment option.

4.3 DECISION-MAKING TOOLS

The CAP sponsor should consider providing access to the following decision-making tools:

- i. investor profile questionnaires or other tools to assist in investment option selection;
- ii. asset allocation tools, which allow for a combination of investment options and understanding of the allocation's consistency with the member's investor profile;
- iii. retirement planning tools, if applicable, including tools that assist members in estimating their potential living and lifestyle expenses in retirement; and,
- iv. calculators and projection tools to help members assess the impact of each of the following on their potential individual account balance and the resulting potential retirement income (as applicable to the CAP):
 - a. contribution level and timing options;
 - b. withdrawals;
 - c. investment returns; and
 - d. the level of fees and expenses.

4.3.1 Investment Projections and Assumptions

The calculations within many of the decision-making tools that provide future projections require assumptions. CAP sponsors or their service providers should ensure that the process for setting assumptions is prudent and should periodically review the assumptions and/or modelled output for reasonability. CAP sponsors or their service providers should disclose assumptions to plan members.

Disclosures should describe how outcomes are affected if different assumptions are used. If estimates are provided to plan members, disclosures should indicate that actual results will differ. Showing a range of results based on varying assumptions may be appropriate to convey the risk and variability around the estimates.

4.4 INVESTMENT AND FINANCIAL PLANNING ADVICE

In addition to providing or making available investment information and decision-making tools, a CAP sponsor may consider whether to enter into an arrangement with or refer CAP members to one or more service providers who are appropriately qualified to provide investment or financial planning advice and who can assist CAP members in deciding how to invest their CAP assets.

If the CAP sponsor enters into such an arrangement, it should clearly communicate to CAP members the nature of the advice from the service provider, how the advisor is compensated and who is paying for their services. This should include any limitations respecting the service provider's mandate or scope of services, and include any real or perceived conflicts of interest or lack of independence arising from the CAP sponsor's involvement in selecting, retaining and/or compensating the service provider.

Where the CAP sponsor does not enter into such an arrangement, the CAP sponsor may consider providing, or providing access to, information for CAP members on how to find the

right financial advisor for them, such as the Financial Consumer Agency of Canada's guide on [Choosing A Financial Advisor](#).

4.4.1 Selecting Service Providers to Provide Investment or Financial Planning Advice

As with the selection of all service providers, the CAP sponsor should use care in selecting investment advisors or financial planners, including but not limited to, developing criteria for their selection and selecting them in accordance with such criteria.

Factors the CAP sponsor may consider when establishing criteria for selecting service providers to provide investment advice or financial planning services to members include:

- i. the criteria used to select service providers generally (see [Section 2.1.5 Selecting Service Providers](#));
- ii. any conflict of interest or real or perceived lack of independence of the service provider relative to other plan service providers, the CAP sponsor and its members that may impact the investment advice or other services provided;
- iii. the availability of an asset allocation or financial planning model, and the existence of processes for ensuring the on-going reasonableness of the model's underlying assumptions;
- iv. any qualifications, such as registrations and/or proficiency requirements, that individuals and/or their firms must meet before they can provide investment advice or financial planning services, including the use of financial advisor and financial planner titles, as applicable;
- v. knowledge of CAPs and related tax and regulatory requirements, as applicable;
- vi. the requirement to protect the security of CAP members' personal data;
- vii. the level and competitiveness of fees charged for services provided, and which fees are paid by the member; and
- viii. any commissions or other incentives that the service provider may obtain from the CAP members' investment in certain options.

SECTION 5: ONGOING COMMUNICATION TO CAP MEMBERS

CAP member communication activities should be geared toward the outcome intended by the CAP. The CAP sponsor should regularly provide, or provide access to, information on the CAP members' accounts and the performance of the investment options available in the plan. The CAP sponsor should also provide, or provide access to, additional information upon the request of members.

5.1 MEMBER STATEMENTS

The CAP sponsor should provide, or provide CAP members access to, a statement of their CAP account at least annually or as prescribed in legislation. The frequency at which statements should be provided or made accessible may be based on the types of investment options available in the CAP. Paper copies of the statement should be available to members upon request if another format is standard.

Member statements should be organized for clarity of content. For a CAP with a retirement focus, member statements should help members understand their level of savings and projected income in retirement.

The member statement should include, but not be limited to:

- i. a summary of investments, and the total value of the member account invested in each investment option;
- ii. the allocation of contributions invested in the chosen investment option(s);
- iii. a summary of investment activity for the statement period – opening balance, contributions by contributor (member and/or employer), by type (required, voluntary, and/or matching) and a reporting of any withdrawals, transfers-in, transfers-out, net change in the value of the account and closing balance of the account;
- iv. notice of any upcoming requirement or ability for a CAP member to commence retirement income, where applicable;
- v. minimum and maximum permitted withdrawal amounts for the following year, where applicable;
- vi. the CAP member's personal rate of return⁴; and
- vii. information regarding the total level of fees and expenses payable by the member or through the member's account with respect to each investment option elected by the member, and where to locate the fees and expenses with respect to other investment options available but not currently selected by the member.

⁴ If a statement includes a personal rate of return for CAP members, the method used to produce the calculation should be described, along with information about where the members can get a more detailed explanation of the calculation (if it is not shown on the statement). A personal rate of return should be net of any applicable fees and expenses and should be clearly distinguished from any rate of return of an investment option disclosed in the statement.

5.2 OTHER INFORMATION

5.2.1 Access to Additional Information

Unless appearing in the CAP member statement, the CAP sponsor should provide or make available, additional information regarding the CAP member's CAP account including details of:

- i. investment options available in the CAP, including how to obtain characteristics of the investment option, holdings of the investment option and other disclosure information, if applicable;
- ii. transactions: date of transaction, transaction type (e.g., inter-fund transfer), amount, unit value, units purchased or withdrawn;
- iii. characteristics of guaranteed investment and other fixed term investment options, such as term of the investment, date of maturity, interest rate, and exposure to market risk;
- iv. projections and estimates, if provided, and their key assumptions;
- v. any additional breakdown of fees and expenses (see [Section 3.4 Description of Fees and Expenses](#));
- vi. information on transfer options (see [Section 3.3 Transfers Between Investment Options](#)); and
- vii. an explanation or demonstration of the impact that fees and expected returns have on the member's long-term saving and retirement income.

5.2.2 Report on Material Changes

The CAP sponsor should provide advance notice to CAP members of any material change in the CAP's purpose, features and/or investment options.

The notice of change should include, but not be limited to:

- i. the effective date of the change;
- ii. a brief description of and the reasons for the change;
- iii. how the change could affect CAP members' holdings in the CAP (e.g., how the change may affect the level of contributions or whether the change impacts the risk profile of a particular investment option);
- iv. the manner in which assets will be allocated or transferred to a new investment option (where applicable);
- v. details of what CAP members must do (if action is required) and the consequences of not taking action;
- vi. details of any transaction fees or market value adjustments that may apply to the change;
- vii. a summary of the tax consequences that may arise as a result of the change;
- viii. how to get more detailed information about the change; and
- ix. a reminder to CAP members to evaluate the impact of the change on their CAP, CAP strategy and personal financial situation.

CAPSA Guideline No. 3
Guideline for Capital Accumulation Plans

Material changes in investment options are the changes that would be considered important by a reasonable investor in determining whether to purchase, sell/redeem or continue to hold the investment, which include the following:

- i. a change to the nature of an investment option, including a change to the asset mix or investment strategy;
- ii. a change in the operation of an investment option including a change in the investment manager;
- iii. an addition or removal, with or without replacement, of an investment fund or other option;
- iv. a change in the level of fees and expected expenses associated with an investment option or ongoing administration and record keeping paid by CAP members; and
- v. a change of a significant service provider to the CAP.

5.3 PERFORMANCE REPORTS FOR INVESTMENT OPTIONS

The CAP sponsor should provide or provide access to performance reports for each investment option in the CAP to members.

Each performance report should include, where applicable:

- i. the name of the investment fund for which performance is being reported;
- ii. the returns, name and description of the benchmark against which the investment fund's performance is measured, if applicable;
- iii. the performance of the fund over one, three, five and ten years to the extent available and applicable and/or the current and effective yields for money market investment funds;
- iv. whether the investment performance is gross or net of investment management fees and fund operating expenses (the same basis should be used for all investment options made available in the CAP);
- v. a description of the method used to calculate the fund performance, along with information on where to find a more detailed explanation; and
- vi. a statement that past performance may not be repeated and is not necessarily indicative of future performance.

The investment performance report provided, or made accessible, for each investment fund should be updated at least annually, and be consistent with the prevailing market practice for that type of fund.

SECTION 6: MAINTAINING OVERSIGHT OF A CAP

The CAP sponsor should periodically review all plan features, the service providers it engages, investment options available in the plan (including fees), records maintenance, member education and decision-making tools provided to members. The CAP sponsor should set the criteria and the frequency of the review (and/or triggering events to cause a review) of the various aspects of the CAP as outlined below. The CAP sponsor should consider any member feedback and complaints received as part of the review.

6.1 REVIEWING PLAN AND GOVERNANCE FRAMEWORK

The CAP sponsor may periodically review the CAP's features to determine if they continue to meet the purpose and objectives of the CAP. As part of the CAP sponsor's review, they may look to:

- i. CAP members' satisfaction and observed behavior;
- ii. observed and projected outcomes the CAP is achieving;
- iii. new plan features in the marketplace;
- iv. the retirement income options available within the CAP, if applicable; and
- v. the appropriateness of current or alternative plan features to CAP members.

The CAP sponsor should periodically review its governance process, and in doing so consider this guideline to ensure that it is fulfilling its roles and responsibilities in providing the CAP.

6.2 REVIEWING FEES AND EXPENSES

The CAP sponsor should periodically review all member-borne fees and expenses for reasonability and competitiveness. The CAP sponsor is in a unique position to ask questions to obtain the information needed for effective decision-making, by both the CAP sponsor and the CAP member.

The CAP sponsor should consider the following, when reviewing fees and expenses:

- i. requesting a description and breakdown of the different categories of all member-borne fees;
- ii. comparing the fees and expenses across service providers/ investment options to determine whether they are reflective of the going market rate (e.g., by periodically going to market or benchmarking);
- iii. looking for opportunities to leverage possible economies of scale that may be realized (e.g., from the negotiation of fees and expenses for the CAP in conjunction with other CAP or non-CAP benefits plans that may be offered by the CAP sponsor);
- iv. assessing the impact that the fees and expenses have over the long-term on CAP members' savings and retirement income, where applicable; and
- v. assessing whether fees and expenses provide value for plan members including, but not limited to, net investment return, quality of education or other services.

CAPSA Guideline No. 3
Guideline for Capital Accumulation Plans

While low costs are important, so too are the services, member education tools and investment strategies that often accompany higher cost options. These higher cost options may lead to better overall outcomes, given the unique characteristics and needs of the CAP members.

The assessment of whether fees and expenses are delivering value for plan members will involve reviewing the performance of each of the CAP's service providers, investment options and funds, and its member education and decision-making tools.

The CAP sponsor may consider obtaining the assistance of an independent service provider in reviewing the CAP's member-borne fees and expenses.

6.3 REVIEWING SERVICE PROVIDERS

The CAP sponsor should periodically review the performance of its service providers, including those providing financial planning or investment advice.

In establishing criteria for the periodic review of service providers, CAP sponsors should consider:

- i. evolving CAP requirements;
- ii. updating the criteria to reflect the current marketplace, including fees and range of services available;
- iii. including a performance assessment of the service provider and the quality of its product or service;
- iv. reassessing any perceived or actual conflicts of interest; and
- v. assessing the CAP sponsor's satisfaction and CAP members' satisfaction regarding services rendered by the service provider.

6.4 REVIEWING INVESTMENT OPTIONS AND FUNDS

The CAP sponsor should periodically, and at least annually, review the performance of each investment option and fund in the plan. The CAP sponsor should review the appropriateness of the default option and the appropriateness of the plan's aggregate investment line-up, taking into account the characteristics of plan membership and the levels of member engagement and financial literacy.

In establishing criteria for the periodic review of each investment option and fund, the CAP sponsor should ensure the investments continue to meet the criteria used in its selection and consider:

- i. updating the criteria to reflect changes in the marketplace;
- ii. including a performance assessment, relative to its benchmark, as applicable, over various time periods;
- iii. assessing whether the amount of fees associated with the investment options are reasonable and achieve value for plan members given the actual and expected investment performance;
- iv. ensuring that risks, returns, and characteristics of the investment options are aligned with

- expectations;
- v. the impact of any changes to the investment manager's firm, team, or investment strategy; and
- vi. members' investment behavior and usage of the investment fund.

6.5 REVIEWING MEMBER EDUCATION AND DECISION-MAKING TOOLS

The CAP sponsor should periodically review the effectiveness and appropriateness of the CAP's education materials, education strategy, investment information and decision-making tools.

In establishing criteria for the periodic review of the information and decision-making tools, CAP sponsors should include the:

- i. types of decisions members must make;
- ii. reasonability of underlying assumptions and/or modelled output within the current market environment;
- iii. cost relative to the value and/or usage or effectiveness of the tool or service;
- iv. observed patterns of investment behavior of the members;
- v. observed and projected outcomes the CAP is achieving for members; and
- vi. members' satisfaction with the information and tools.

6.6 REVIEWING MAINTENANCE OF RECORDS

The CAP sponsor should periodically review their record retention policy and how well the plan's records are maintained.

The review may include:

- i. reviewing errors identified in the records; and
- ii. reviewing the appropriateness of the controls, processes and systems employed.

The CAP sponsor should ensure that record retention policies comply with all applicable legislation governing record retention and protection of personal information.

The CAP sponsor should take steps to maintain the accuracy of member records, by employing a process to locate any CAP members who are considered missing or for whom it does not have current contact information and to document changes received from CAP members. Depending on the nature of the CAP, CAP sponsors may find it useful to reference the [CAPSA Guideline No. 9 Searching for Un-locatable Members of a Pension Plan](#).

SECTION 7: COMMUNICATION TO CAP MEMBERS ON TERMINATION OF ACTIVE PARTICIPATION

The termination of a CAP member's active participation (e.g., termination of employment, retirement, or death), in the CAP should be done in accordance with the terms of the plan and any applicable legal requirements. It is important to note that while a CAP member's employment relationship with the CAP sponsor may end, the individual may remain a member of the CAP for some time thereafter. The CAP sponsor maintains responsibilities toward the former CAP member for as long as they still have assets held in their individual account under the CAP.

If a CAP member terminates active participation in the plan, the CAP sponsor should provide the member or the member's survivor/beneficiary with information, as applicable, based on the nature of the CAP, such as:

- i. the ability to remain in the plan, as required or permitted by legislation or by plan rules;
- ii. any requirement to move to an alternate plan;
- iii. any requirement to receive income from the plan;
- iv. an explanation of how to transfer money to products outside of the CAP;
- v. an explanation of the fees and expenses if the funds remain in the CAP itself or with the plan's existing fundholder;
- vi. any actions the member or the member's survivor/beneficiary must take;
- vii. any deadlines for action by the member or the member's survivor/beneficiary;
- viii. the manner in which assets will be liquidated or distributed;
- ix. any default options that may be applied if no action is taken;
- x. the impact that the termination of plan membership will have on each investment option; and
- xi. any tax consequences, market value adjustments, early withdrawal penalties or any other fees.

Certain types of CAPs provide members who have terminated active participation in the CAP with the option to receive retirement income directly from the CAP. Where this option is available, the CAP sponsor should provide the member with the following information, in addition to the information listed above, as applicable:

- i. explanation of the nature of each available option to receive retirement income from the CAP;
- ii. explanation of the investments associated with each retirement income option;
- iii. explanation of the type of ongoing communication that will be provided with each option; and
- iv. explanation of the fees and expenses associated with any retirement income option.

CAPSA Guideline No. 3
Guideline for Capital Accumulation Plans

SECTION 8: COMMUNICATION TO CAP MEMBERS ON TERMINATION OF A CAP

The termination of a CAP should be done in accordance with the terms of the plan and any applicable legal requirements or guidelines.

If a CAP sponsor is terminating the CAP, the CAP sponsor should promptly provide CAP members with the corresponding information as described in [Section 7: Communicating to CAP Members on Termination of Active Participation](#), as applicable. In addition, the CAP sponsor should also provide members with an explanation of the impact that the termination of the plan will have on each investment option.



“What should you know about governance before introducing a workplace pension plan?”

Alice Grace was in her home office, focusing on her laptop. A number of Bowden, Turner & Associates releases were spread out on all available work surfaces.

“What’s on your plate tomorrow?” asked her husband, Adam, standing in the doorway.

“I’m prepping for a presentation at the London Chamber of Commerce next week. You know how they often invite outside ‘experts’ to address issues of interest for their members? Pardit, the Chamber’s CEO, says that quite a few of their members, primarily midsized businesses, have asked whether the Chamber could hold a seminar that focuses on pension plan governance activities. I’m presenting with Katzuya Katana. He’s a London-based pension advisor who also knows Pardit. He’s very familiar with the releases I’ve published on governance. Our presentation is called Pension Plan Governance—Administrator Roles and Responsibilities.”

Alice Grace, Pension Lawyer, Bowden, Turner & Associates, London, Ontario

- Specializes in single employer pension plans and governance-related issues
- Asked to co-present with Katzuya Katana at a London Chamber of Commerce event focused on midsized businesses.

Katzuya Katana, Pension Advisor, Huntley & Wright, London, Ontario

- CEBS® graduate and a partner with Huntley & Wright
- Board member of London Chamber of Commerce

Knowledge you bring to the pension presentation preparation includes:

- The pension promise
- Single employer pension plan
- Pension governance
- Pension plan administrator
- Fiduciary responsibility
- Prudent person rule
- Duty of care
- Conflict of interest
- Beneficiaries
- CAPSA Governance Guideline
- CAP Guideline.

“I have been looking for the appropriate materials for the presentation. We only have an hour and a half, and my time allocation is 45 minutes. So much to say and so little time.” Alice continued, *“It’s difficult to convey the significance and importance of governance in that short time. But I’m ready to put it away for today.”* Alice packed up her notes and papers.

The next morning, Alice immediately turned her attention to an email to Katzuya that captured the list of topics she wanted to cover in her 45-minute presentation.

- What is pension governance, and why is it important?
- What factors are contributing to the increasing importance of governance?
- Who can be a plan administrator?
- Why does a plan administrator hold fiduciary responsibilities in respect of the pension plan?
- What are the fiduciary responsibilities held by a pension plan administrator?

Katzuya Katana

From: Alice Grace; AliceGrace@BowdenTurner.com

Sent: Mon 3/21/20XX 8:51 AM

To: Katzuya Katana; Katzuya@HW.com

Good morning Katzuya,

Looking forward to presenting with you at the Chamber event next week! As discussed, here are the key points I plan to address in my section. If I’ve missed anything or if my slides trigger questions you think I should cover, please feel free to suggest content.

This topic is massive, and with limited time, my goal is to focus on what good governance means, the role and legal duties of the plan administrator, and the liability assumed for Ontario-based single employer pension plans. Each bullet point represents one slide. I will build those after we agree on the outline. I’ve included my speaker notes for each slide.

Alice

What is pension governance, and why has it seemingly become so important?

Speaker Notes

The “what,” on the face of it, sounds clear.

- Structure and processes of administration, management and oversight of a pension plan that ensure that fiduciary and other obligations are met

The “why” can also sound clear.

- Good governance is good business. It protects all involved stakeholders.
- A pension promise is the plan sponsor’s promise to provide retirement income as specified in the pension plan document.
- The nature of the pension promise is central to good plan governance and needs to be understood by all stakeholders.
- Communication should include who bears the risk and what uncertainties exist.

What factors are contributing to the increasing importance of governance?

Speaker Notes

Factors giving governance a higher profile include:

- For DB plans:
 - Sustained low interest rates
 - Increased plan member longevity
 - Ongoing volatility in the international financial markets
- All present increased challenges for plan administrators.
- Meanwhile, for most small to midsized companies, DC plans are taking centre stage over DB plans. While plan members assume financial risk in DC plans, plan administrators feel pressure to assist them with investment information and options.
 - As a pension lawyer, I know pension administrators face consequences of poor plan governance under two scenarios:
 - (1) The Pension Benefits Act (PBA) in Ontario:
 - The Chief Executive Officer of the Financial Services Regulatory Authority of Ontario (FSRA) can take action if a breach of the administrator's duty under the PBA has been determined.
 - Individuals can be personally fined up to a maximum of \$100,000 for the first offence and \$200,000 for subsequent ones.
 - Plan sponsors can be assessed an administrative penalty in the event of noncompliance with the PBA (including for late filing of required forms or reports).
 - (2) Under common law:
 - Liability at common law can include breach of fiduciary duty, negligent misrepresentation and breach of contract or negligence.
 - On the plus side, there are safeguards on liability since administrators may proactively seek direction from a court when there is a question regarding the interpretation of pension plan documents or when an issue regarding the pension plan is unclear.
 - Employers are nervous when it comes to personal liability for employees, and even though employers attempt to limit their liability with directors and officers insurance or special indemnification clauses, if there is willful misconduct, these measures are not enforceable.

Katzuya and I are here today to help you get a better understanding of a pension plan administrator's obligations so that you can, in turn, identify the significance and importance of pension governance at your respective organizations. Once we get through the "theoretical" stuff, we'll provide some suggestions about governance activities that relate to ways you can delegate some of those obligations.

Who can be a pension plan administrator?



Speaker Notes

I expect that most of your organizations are corporations, and if yours sponsors a pension plan for some or all of its employees, the corporation is usually the “legal” plan administrator.

The Ontario pension regulator allows for that as well as allowing that the plan administrator may be a bargaining agent, a member of a pension committee or board of trustees, or a financial institution. In the case of most single employer private sector pension plans, it is the corporation’s obligation as that plan administrator to practice good pension governance. Note that this “administrator” definition is not intended to simply reflect that the payroll administrator handles new hires and pension plan remittances!

There is a fairly long list of duties that the administrator needs to perform, including, in no particular order, registering the plan, defining roles and responsibilities for anyone involved in the plan’s operation, making required filings, paying required fees, maintaining plan documentation, communicating with members, investing and monitoring the pension fund, and delegating any activities that require specialized knowledge or resources not available within the plan sponsor’s organization.

One area where plan administrators are exposed to risk involves delegation of tasks. The responsibility for plan administration cannot be delegated, even though a plan sponsor may outsource certain plan administration and investment duties to others, such as advisors and service providers. At the end of the day, the plan sponsor can’t delegate fiduciary responsibility. It can only delegate responsibility for certain tasks. “Governance” includes the establishment of a system used by the plan administrator to select qualified agents and monitor those agents to ensure compliance with pension legislation and guidelines.

Another area of risk for plan administrators pertains to investing the pension fund assets. Pension funds must be held at arm’s length from the plan sponsor, through a custodian arrangement that uses either a trust or an insurance company annuity contract. The administrator must use prudence to select and monitor the actions of a qualified custodian. Then, regardless of the type of pension plan that is in place, qualified investment managers and investment options are needed. For defined contribution pension plans, it is the plan administrator’s responsibility to select a range of investment options that give plan members access to appropriate and diverse choices.

Why does the plan administrator hold fiduciary responsibilities in respect of the pension plan?

Speaker Notes

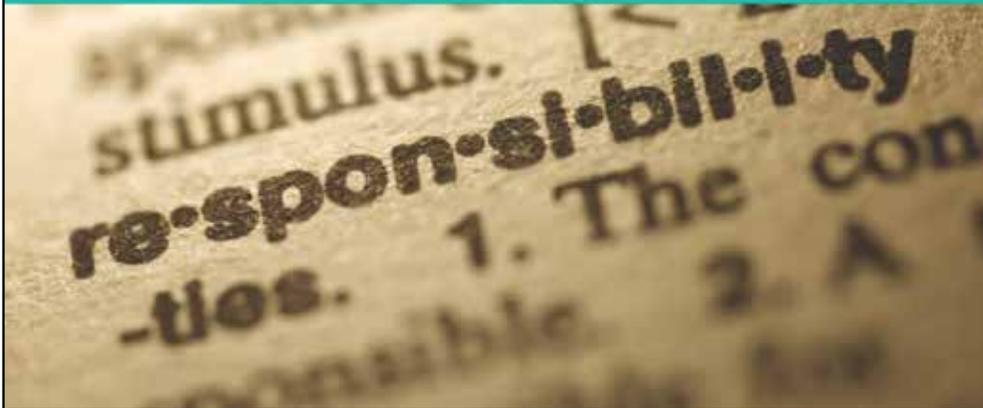
A “fiduciary relationship” is defined as one of trust, where the fiduciary has an obligation to act in the best interest of the other party(ies).

A fiduciary obligation is imposed on a plan administrator by legislation in some jurisdictions or can occur when:

- The plan administrator exercises discretionary power to affect the interests of members or beneficiaries.
- The plan administrator unilaterally exercises that power to affect the interests of members or beneficiaries.
- The members and beneficiaries are in a position of vulnerability at the hands of the plan administrator (or their delegate).

Based on this description, all other jurisdictions take the view that the plan administrator is a fiduciary, even if this is not explicitly reflected in their pension standards legislation.

What are the fiduciary responsibilities held by a pension plan administrator?



Speaker Notes

The plan administrator’s fiduciary responsibilities can be described as requiring the administrator to:

1. Treat members and beneficiaries impartially
2. Act with the care, skill and diligence of a prudent person
3. Interpret the plan terms fairly, impartially and in good faith
4. Manage any conflicts of interest—This can be a challenge when the employer or plan sponsor is also the administrator of the plan.
5. Ensure, within the scope of its duties and authority, that members and beneficiaries receive the plan’s promised benefits (the “pension promise” referred to earlier).

Under common law, only the administrative functions are subject to the standard of care set out in the legislation.

I’ll expand a bit on a couple of these duties.



Fiduciary responsibility to treat members and beneficiaries impartially

Speaker Notes

This is fairly self-explanatory. Members need to be treated fairly and without bias. This can relate to various aspects of the plan operation—Distribution of information to members within a certain “class” should be uniform within the class and distributed at the same time to all members.

Should information be distributed in more than one language, translation should be handled in a professional manner that ensures members receive the same information, and distribution of the information should occur at the same time regardless of the language used.



**Fiduciary responsibility to
interpret the plan terms fairly,
impartially and in good faith**

Speaker Notes

The administrator must act solely in the best interest of the plan beneficiaries and not act in bad faith.

In other words, even if there are difficult employment issues going on (e.g., union grievances, a difficult collective bargaining process), the administrator must continue to operate the plan in accordance with **all** of its terms for **all** of the plan members.



Apply Your Knowledge

Katzuya read Alice's email. He called her to share some valuable feedback in addition to offering her three questions he felt the audience might ask. Put on your pension advisor hat and respond to Katzuya's questions:

- 1. Alice briefly discussed the range of tasks that pension plan administrators need to perform. Describe the alternative methods that administrators can use to fulfill their responsibilities for those tasks and how the alternative approaches may impact the plan's governance structure.** (Learning Outcome 2.1, Study Guide Module 5, p. 10; Learning Outcome 5.1, Study Guide Module 5, p. 21; Reading B, CAPSA Guideline No. 4, Pension Plan Governance, Study Guide Module 5, pp. 38-39; Text, pp. 93-94 and 97)

- 2. The fifth slide, "What are the fiduciary responsibilities held by a pension plan administrator?" mentions that conflicts of interest may arise when the plan administrator is also the plan sponsor. Describe how this can impact a single-employer pension plan.** (Learning Outcome 2.2, Study Guide Module 5, p. 10; Text, pp. 93-94)

- 3. Alice mentioned that a pitfall for administrators pertains to the investment of pension fund assets. For a DC pension plan, identify factors that need to be considered during the periodic review of the investment options.** (Learning Outcome 5.9, Study Guide Module 5, p. 28; Reading C, CAPSA Guideline No. 3, Guideline for Capital Accumulation Plans (CAP Guideline), Study Guide Module 5, pp. 72-73)



Test Your Knowledge

Katzuya built upon Alice's outline and emailed her what he planned to present at the Chamber event. His presentation narrows the focus to the delegation of functions to outside advisors.

Check each box with the key terms you find covered in Katzuya's presentation.

- CAPSA Guideline No. 4, Pension Plan Governance Guideline
- CAP Guideline
- Best practices
- Prudence
- Delegation
- Tasks to delegate
- Service providers
- Selection and monitoring criteria



Alice Grace

From: Katzuya Katana; Katzuya@HW.com

Sent: Mon 3/21/20XX 2:14 PM

To: Alice Grace; AliceGrace@BowdenTurner.com

Hi Alice,

Looking forward to collaborating with you on this presentation. There is a real need for this type of information sharing in our community.

To keep our presentation flow consistent, I've included my outline in a similar style. Since we have limited time, I've decided to focus on a single aspect of plan governance—selection of service providers. I think it will resonate with the small and midsized companies that are members of the Chamber. I suggest we meet this week to fine-tune our key messages and eliminate any content that isn't absolutely necessary. My presentation outline is attached.

Katzuya

Guidance available to plan administrators

- CAPSA Guideline No. 4, “Pension Plan Governance Guideline”
- Guideline for Capital Accumulation Plans
- Best practices for plan governance

Speaker Notes

Before jumping into actual practical activities around governance, I thought it might be helpful to identify the guidance available to plan administrators for their plan governance activities.

As Alice identified, pension standards legislation imposes certain duties on plan administrators, and it makes sense that the pension regulators have offered some guidance about their expectations.

“They,” collectively known as the Canadian Association of Pension Supervisory Authorities, or CAPSA, issued various guidelines relating to pension plans—including a key one, Guideline No. 4, “Pension Plan Governance.”

This is good for pension plans, but not all company plans are pension plans. CAPSA’s “Guideline for Capital Accumulation Plans,” generally referred to as the “CAP Guideline,” applies to any DC plan that allows members to make investment decisions between two or more investment options, whether a pension plan, Group RRSP or DPSP.

Remember Alice’s comments about the delivery of the “pension promise”? These guidelines on governance relate to that delivery process. CAPSA and CAP Guidelines are not law, although the CAPSA Guidelines do refer to certain regulatory requirements. They are voluntary and represent good governance practices. They are considered the minimum standard of conduct—a set of “best practices”—and should be followed.

Practical aspects of pension plan governance

- Corporate realities
- Delegation
- Prudence and continuing fiduciary responsibility
- Due diligence

Speaker Notes

Now let's move into some of the practical aspects of plan governance. Many of you are here representing small and medium-sized employers in our region. You may wonder how to operate your retirement plan in the most effective way. I would bet that "**effective**" in your context likely means trouble-free plan operation that your employees value. Your expertise relates to your industry and specific business, not particularly to the ins and outs of pension standards and income tax legislation. So how do you get to this effective operation of your retirement plan?

Here's where "prudence" comes into play. If you do not have the in-house expertise to handle all aspects of your retirement plan's operation, the onus is on your organization to obtain qualified professional advice. This means delegating certain responsibilities to qualified service providers. Governance activities around the delegation process include investigating available service providers, negotiating with them for their services and monitoring their ongoing service and fee levels. Remember, delegation does not remove your fiduciary responsibility around their activities. You can help achieve that "trouble-free" status by doing your due diligence before hiring outside service providers.

If considering delegating duties related to a DC pension plan, can your organization:

1. Write a legal document describing the pension plan terms that will satisfy the Ontario pension regulator and terms of the federal Income Tax Act?
2. Organize the remaining documentation needed to qualify as a registered plan under Ontario and federal income tax legislation?
3. Invest the plan monies and handle member investment transactions in a manner satisfactory to pension and income tax regulators?

Speaker Notes

How do you determine what duties to delegate? Let's go back to that list of duties that Alice included in her presentation. Assume your organization has, or wants to provide, a DC pension plan.

Here are some questions to ask yourselves. Because this is so important, I'll cover these questions in two slides.

If considering delegating duties related to a DC pension plan, can your organization:

(continued)

4. Operate a plan administration system that allows the preparation of prescribed member disclosure and education materials?
5. Keep up to date on plan design and regulatory matters in order to maintain the plan's legality and position as an attractive employee benefit?
6. Write accurate member communications that help your employees understand the value of the plan benefits?

Speaker Notes

If you answered “no” to any of these questions, you may need to find one or more outside service providers.

How would you go about doing that? What will you need to find out about these providers in this due diligence process?

Fortunately, the industry guidelines identified at the start of my presentation offer some suggestions about selecting service providers. I have massaged these a bit to try to provide some additional focus to what, in my opinion, are the most important criteria.

Your organization likely has developed an approach to the selection of vendors. Service providers for your retirement plan are just another type of vendor.

You may find that you need more than one kind of outside service provider. For example, you may need someone to help you navigate the world of retirement plan design, regulatory requirements, available plan investments and “who does what” in the retirement plan industry. That organization may or may not be able to provide the “hard” administrative services: for example, the recordkeeping and benefit determination that keep the plan running. That first service provider may be in a position to assist you in the selection of the second.

Suggested considerations when establishing criteria for selecting service providers (CAP Guideline 2.1.5)

- Potential conflicts of interest
- Reputation
- Professional qualifications or designations
- Historical and expected stability of the service provider team
- Experience
- Specialization in the type of service to be provided
- Controls in place to secure cap members' personal data
- Consistency of service offered in all geographical areas in which members reside
- Quality, level and continuity of services offered
- Competitiveness and reasonableness of the cost of services provided
- Appropriate level of access to information from the service provider to allow the CAP sponsor to meet CAP member disclosure requirements as outlined in the guideline.

Speaker Notes

Implied in the third and fifth bullets on this slide is the assumption that the “professional qualifications or designations, and experience” includes, for certain types of service providers like outside recordkeepers, an ability to meet all the legislative requirements for employee “disclosures” and the provision of the type of member education and communication materials outlined in the CAP Guideline. These activities can be significant.

Your company likely also has some type of review process relating to your relationship with selected vendors. A review process needs to be implemented with respect to your retirement plan service providers as well.

Maintaining Oversight of a CAP

(CAP Guideline 6)

Periodically review:

- All plan features
- The service providers engaged
- Investment options available in the plan (including fees)
- Records maintenance
- Member education
- Decision making tools provided to plan members

Speaker Notes

Both the CAP and the CAPSA Guidelines also call for regular monitoring of all participants involved in the governance and administration of the retirement plan—whether internal staff or outside service providers.

Typically, your review process will consider whether the selected providers continue to meet your original selection criteria. However, that old saying “the proof is in the pudding” also applies. You will, or *should*, know whether the plan is running effectively and whether employees see it as a positive part of their employment.

Part of your monitoring and review process will involve the establishment of procedures that can assist in remedying any inadequate performance. Again, this all goes back to the principle that although you can delegate activities to a third party, your organization continues to hold the fiduciary responsibility of making sure things operate smoothly and the pension promise made to employees is met.

Good governance is good business!

- Good governance of retirement plans can:
 - Contribute toward an **“effective”** retirement plan—money well spent and happy employees!
 - Help organizations avoid penalties and litigation—avoid additional costs and complications.
- Good governance need not be onerous—Guidance is available through industry guidelines and service providers.

Speaker Notes

We could talk for most of the day about retirement plan governance. Before we adjourn, I'd like to reiterate our primary message about good governance with this last slide and leave some time for questions.

Alice and I will be here for a bit to answer any questions that you might have.



Answers to Apply Your Knowledge

Katzuya read Alice's email. He called her to share some valuable feedback in addition to offering her three questions he felt the audience might ask. Put on your pension advisor hat and respond to Katzuya's questions:

- 1. Alice briefly discussed the range of tasks that pension plan administrators need to perform. Describe the alternative methods that administrators can use to fulfill their responsibilities for those tasks and how the alternative approaches may impact the plan's governance structure.** (Learning Outcome 2.1, Study Guide Module 5, p. 10; Learning Outcome 5.1, Study Guide Module 5, p. 21; Reading B, CAPSA Guideline No. 4, Pension Plan Governance, Study Guide Module 5, pp. 38-39; Text, pp. 93-94 and 97)

The plan administrator may perform some, or all, of the duties themselves, or may delegate certain activities to external service providers. While the activities may be delegated, the fiduciary responsibility remains that of the plan administrator.

Principle 5 of CAPSA Guideline #4 identifies that when a plan administrator delegates certain responsibilities, it is the responsibility of the plan administrator to consider whether the delegates have the needed qualifications, resources and experience to perform the assigned duties. In the event that the plan administrator handles certain tasks themselves, there is a responsibility to provide access to any necessary education to allow successful completion of those tasks.

As a result, plan governance requires supervision and ongoing monitoring of all delegated tasks.

- 2. The fifth slide, "What are the fiduciary responsibilities held by a pension plan administrator?," mentions that conflicts of interest may arise when the plan administrator is also the plan sponsor. Describe how this can impact a single employer pension plan.** (Learning Outcome 2.2, Study Guide Module 5, p. 10; Text, pp. 93-94)

The plan sponsor, or employer, may act in the best interests of the company. From time to time, this may conflict with the best interests of the pension plan members and other beneficiaries. The plan administrator, which can also be the employer, holds a fiduciary responsibility to the plan and its members. Sometimes this is referred to as the "two hats" doctrine. A robust plan governance program can help balance the competing interests associated with the two roles.

- 3. Alice mentioned that a pitfall for administrators pertains to the investment of pension fund assets. For a DC pension plan, identify factors that need to be considered during the periodic review of the investment options.** (Learning Outcome 5.9, Study Guide Module 5, p. 28; Reading C, CAPSA Guideline No. 3, Guideline for Capital Accumulation Plans (CAP Guideline), Study Guide Module 5, pp. 72-73)

CAP sponsors should periodically, and at least annually, review the performance of each investment option and fund. In establishing criteria for its periodic review, it should consider:

- (a) Updating the criteria to reflect changes in the marketplace
- (b) Including a performance assessment (relative to its benchmark, as applicable) over various over various time periods
- (c) Assessing whether the amount of fees associated with the investment options are reasonable and achieve value for plan members given the actual and expected investment performance
- (d) Ensuring that risks, returns and characteristics of the investment options are aligned with expectations
- (e) The impact of any changes to the investment manager's firm, team or investment strategy
- (f) Members' investment behavior and usage of the investment fund.