RPA2 Managing Retirement Plans Part 2

Study Materials Update—October 2019

This material is required reading for purposes of the CEBS program and the national exam for the RPA 2 course administered on or after October 15, 2019.

This update covers Modules 1, 2, 7, 11, 12 and 13 of the Study Guide (First Printing—April 2018 and Second Printing—October 2018).
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 2.

For the online Study Guide:

These updates will be reflected in the online versions of Study Guide Modules 1, 2, 7, 11, 12 and 13.

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 1

Page 4, Professional Enrichment Resources, McGill University Pension Plan (MUPP):
Change the link to: http://www.mcgill.ca/hr/pensions/mupp
Study Guide Module 2

Page 36, Bond Market Indicators, Text, Page 53: Make changes indicated in bold to reflect a change in the name of the DEX Universe Bond Index.

The Scotia Capital bond market index was rebranded as DEX Universe Bond Index and then renamed as the Financial Times Stock Exchange (FTSE) TMX Canada Universe Bond Index. It was later rebranded as the FTSE Canada Universe Bond Index. The FTSE Canada Universe Bond Index is the broadest and most widely used measure of performance of marketable government and corporate bonds outstanding in the Canadian market.
Study Guide Module 7

Page 2, Assigned Reading, Add Formula Summary:

**Formula Summary**

The Formula Summary at the back of the Study Guide will be provided for the practice exam and the national examination for the RPA 2 course. Only formulas included in the Formula Summary will be tested on the practice exam and the national examination. Candidates are not expected to memorize the formulas—They are expected to apply the formulas.
Page 47, Step 5: Monitor Investment Results Against Objectives: Make changes indicated to the first (b) in bold and remove what is crossed out to reflect a change in the name of the DEX Universe Bond Index.

(b) How fund returns compare relative to index benchmarks such as the Standard & Poor’s (S&P)/Toronto Stock Exchange (TSX) Composite Index, **FTSE Canada Universe Bond Index** DEX Universe Bond Index and relative to the benchmark portfolio
4.1 Outline information about retirement products for plan administrators to provide to DC pension plan members who are approaching the payout phase according to CAPSA Guideline No. 8, Defined Contribution Pension Plans Guideline. (Reading D, Excerpts From CAPSA Guideline No. 8, Defined Contribution Pension Plans Guideline, Study Guide Module 12, pp. 72-73)

CAPSA Guideline No. 8 recommends that plan administrators provide information regarding all regulated retirement products available to plan members, including (depending on legislation in each jurisdiction and subject to change):

(a) Locked-In Retirement Accounts (LIRAs)
(b) Locked-In RRSPs
(c) Locked-In Retirement Income Funds (LRIFs)
(d) Life Income Funds (LIFs)
(e) Life annuity contracts
(f) Prescribed Registered Retirement Income Funds (PRRIFs)
(g) Variable benefits.

The Guideline also recommends that plan administrators provide information that assists plan members in making informed decisions with respect to their retirement options. Along with the retirement statement, plan administrators should provide information regarding the level of fees payable by the member or through the member’s account, including asset based fees that are payable with respect to each investment held in the account. As well, if the retirement statement provides retiring members with an option to move funds out of the plan and into investments with a current service provider, then the fees related to those investments should
also be made available. Members should be provided with information that will strike a balance between protection from the risks inherent in the various products and achieving target replacement rates as well as information regarding any unlocking options that may be available at the time of retirement.

Page 25, Content Knowledge Review 4.2, page reference: Make changes indicated in bold and remove what is crossed out.

(Reading D, Excerpts From CAPSA Guideline No. 8, Defined Contribution Pension Plans Guideline, Study Guide Module 12, p. 74)

Reading D, Replace the current Reading D with the 2019 CAPSA Guideline No. 8 on the attached pages. The primary changes from the 2014 Guideline focus on three key areas:

1. Communication to members regarding variable benefits
2. Assumptions used in retirement projections
Reading

Excerpts From CAPSA Guideline No. 8, Defined Contribution Pension Plans Guideline

Guideline No. 8
Defined Contribution Pension Plans Guideline
February 2019

All rights reserved. This Guideline or any portion of it may not be reproduced or used in any manner whatsoever without CAPSA’s permission.

Reprinted with permission from the Canadian Association of Pension Supervisory Authorities. www.capsa-acor.org. All rights reserved.
TABLE OF CONTENTS

1.0 INTRODUCTION ............................................................................................................................................ 3
  1.1 APPLICATION ................................................................................................................................................ 3
  1.2 PURPOSE ..................................................................................................................................................... 3
  1.3 EXISTING CAPSA GUIDANCE RELATED TO DC PENSION PLANS................................................................. 3

2.0 RESPONSIBILITIES RELATED TO DC PENSION PLANS ............................................................................. 4
  2.1 RESPONSIBILITIES OF THE PLAN ADMINISTRATOR ........................................................................................ 4
  2.2 RESPONSIBILITIES OF THE EMPLOYER ........................................................................................................ 5
  2.3 RESPONSIBILITIES OF THE PLAN SPONSOR .................................................................................................. 5
  2.4 RESPONSIBILITIES OF THIRD-PARTY SERVICE PROVIDER ......................................................................... 6
  2.5 RESPONSIBILITIES OF THE FUND HOLDER ................................................................................................... 6
  2.6 RESPONSIBILITIES OF THE MEMBERS ....................................................................................................... 6

3.0 INFORMATION FOR MEMBERS DURING ACCUMULATION PHASE ....................................................... 7
  3.1 INFORMATION REGARDING INVESTMENT CHOICES ..................................................................................... 7
  3.2 INFORMATION REGARDING CONTRIBUTIONS ................................................................................................. 8
  3.3 INFORMATION AND TOOLS REGARDING ESTIMATES OF ACCOUNT BALANCES AND/OR BENEFITS .......... 8

4.0 INFORMATION FOR MEMBERS WHO ARE APPROACHING THE PAYOUT PHASE ......................... 8
  4.1 INFORMATION REGARDING RETIREMENT PRODUCTS ............................................................................... 9
  4.2 VARIABLE BENEFIT PRODUCTS .................................................................................................................... 9

5.0 INFORMATION FOR MEMBERS DURING THE PAYOUT PHASE ........................................................... 10
  5.1 INFORMATION REGARDING WITHDRAWALS FROM A VARIABLE BENEFIT PLAN ...................................... 10

6.0 ADVERSE AMENDMENTS FOR DC PENSION PLANS ............................................................................ 10
  6.1 DISCLOSURE OF ADVERSE AMENDMENTS FOR DC PENSION PLANS....................................................... 11
1.0 INTRODUCTION

1.1 Application

The Defined Contribution Pension Plans Guideline (the Guideline) applies to defined contribution (DC) pension plans, and to the DC component of hybrid or combination plans. Any reference in this Guideline to a DC pension plan includes the DC component of hybrid or combination plans.

This Guideline supplements existing CAPSA guidance related to DC pension plans and reflects the expectations of regulators regarding the operation of a DC pension plan, regardless of the regulatory regime applicable to the plan. CAPSA guidelines are voluntary in nature and are intended to support the continuous improvement and development of industry practices.

This Guideline does not replace any legislative or regulatory requirements. Stakeholders are responsible for meeting any applicable legal requirements, including any legal or legislative requirements that may extend beyond the scope of this Guideline.

1.2 Purpose

The DC Pension Plans Guideline:

- Sets out guidance related to DC pension plans that has previously been released by CAPSA.
- Outlines and clarifies the rights and responsibilities of plan administrators, employers, plan sponsors, service providers, fund holders and members with respect to DC pension plans.
- Provides DC pension plan administrators with guidance regarding tools and information to provide to members while they are members of the plan and when they are choosing retirement options.

- Where variable benefit products are an option, provides DC pension plan administrators with guidance regarding tools and information to provide to members who are in receipt of a variable benefit.\(^1\)
- Clarifies what constitutes an adverse amendment for DC pension plans or plans with DC components.

1.3 Existing CAPSA Guidance Related to DC Pension Plans

CAPSA Guideline No. 3 - Guidelines for Capital Accumulation Plans


A Capital Accumulation Plan (CAP) is defined in the CAP Guidelines as “a tax assisted investment or savings plan that permits the members of the CAP to make investment decisions among two or more investment options offered within the plan…established by an employer, trade union, association or any combination of these entities for the benefit of its employees or members… Examples of a CAP include a defined contribution registered pension plan; a group registered retirement savings plan or registered education savings plan; and a deferred profit sharing plan.”

The CAP Guidelines provide guidance on:

- Setting up a CAP.
- Investment information and decision-making tools for CAP members.
- Introducing the CAP to members.
- Ongoing communication to CAP members.
- Maintaining a CAP.

\(^1\) For further details on the information and general features regarding retirement products that plan administrators may provide to members, including variable benefits, see: **CAPSA Reference Document: Registered Retirement Products for DC Plan Members**.
• Terminating a CAP or terminating a CAP member’s participation.

The CAP Guidelines apply only to tax assisted plans (including DC pension plans) where members make investment decisions. In contrast, the DC Pension Plans Guideline applies to all DC pension plans regardless of whether or not members make investment decisions. However, there are some sections of the DC Pension Plans Guideline which would not be relevant to pension plans where members do not make investment decisions, such as sections describing an expectation that plan administrators provide members with information to assist them in deciding between investment options.

**CAPSA Guideline No. 4 - Pension Plan Governance Guideline, the related Self-Assessment Questionnaire and Frequently Asked Questions.**

In December 2016, CAPSA released revised CAPSA Guideline No. 4: Pension Plan Governance Guideline (CAPSA Guideline No. 4), the related Self-Assessment Questionnaire and Frequently Asked Questions, to assist plan administrators in fulfilling their governance responsibilities by achieving and maintaining good governance practices.

**CAPSA Guideline No. 5 - Guideline on Fund Holder Arrangements**

In March 2011, CAPSA released CAPSA Guideline No. 5: Guideline on Fund Holder Arrangements (CAPSA Guideline No. 5), which clarifies the nature of fund holder arrangements and related responsibilities.

In relation to DC pension plans, the Fund Holder Arrangement Guideline addresses the responsibilities of the fund holder(s).

**CAPSA Guideline No. 6 - Pension Plan Prudent Investment Practices Guideline, the companion Self-Assessment Questionnaire on Prudent Investment Practices**

In November 2011, CAPSA released CAPSA Guideline No. 6: Pension Plan Prudent Investment Practices Guideline (CAPSA Guideline No. 6) and its companion document the Self-Assessment Questionnaire on Prudent Investment Practices.

The Prudent Investment Practices Guideline is intended to help plan administrators demonstrate the application of prudence to the investment of pension plan assets. Although the emphasis on pension plan asset investment varies depending on the type of plan, the Guideline is relevant to all plan types, including DC pension plans.

The self-assessment Questionnaire was designed to help plan administrators review the investment practices of the pension funds for which they have responsibility, to assist the plan administrator in satisfying the requirements of the prudent person rule, and to identify areas of strength and areas for improvement. DC pension plan administrators are encouraged to consider all the sections in this Questionnaire, rather than limiting their assessment to Section 8 (Defined Contribution Pension Plans).

### 2.0 RESPONSIBILITIES RELATED TO DC PENSION PLANS

The primary purpose of this section is to outline the responsibilities of various parties in relation to the DC pension plan.

#### 2.1 Responsibilities of the Plan Administrator

**Plan administrator** – the person, group, body or entity that is ultimately responsible for the oversight, management and administration of the pension plan and its pension fund, including the investment of the pension fund.

The plan administrator has fiduciary and other responsibilities to plan members, beneficiaries and other stakeholders which are outlined in the CAPSA Guideline No. 4.
The DC pension plan and pension fund must be administered and invested in accordance with applicable pension standards legislation, the Income Tax Act (ITA) and pension plan documents. Certain operational and management tasks may be delegated to third-party service providers, as selected by the plan administrator. However, the plan administrator remains responsible for overseeing the discharge of these tasks by monitoring the activities of the third-party service provider. Any delegation of tasks should be clearly documented. (For further details, see CAPSA Guideline No. 4.)

The plan administrator is also responsible for:

- Introducing the plan to members, including a description of the plan terms.
- Providing investment information and, if it is a CAP, decision-making tools to members.
- Providing on-going communication to members.
- Maintaining the plan and the pension fund.
- Ensuring that termination of either the plan or a member is done in accordance with the requirements of the legislation and the terms of the DC pension plan.
- Filing the required documents with the pension regulator.
- Ensuring employees are enrolled in the plan as required in accordance with the terms of the plan and applicable legislation.
- Selecting and monitoring third-party service providers.
- Selecting and monitoring investment options including default option(s) to be made available in the DC pension plan.
- If offering a variable benefit product, considering whether different default options should be used during the accumulation and decumulation phases.

When establishing a DC pension plan and throughout its existence, the plan administrator should take into account all relevant factors when selecting investment options to be made available to plan members. These should include the nature of the investment, its risk return profile and historical returns, bearing in mind that past performance is not necessarily predictive of future performance. In addition, the plan administrator should consider the number of investment options which are made available and the level of fees that members will pay. In particular, the administrator should consider the reasonableness of those fees compared to the market, and the impact of those fees on returns.

The information (and documentation) that the plan administrator is responsible for providing to members should be written using plain language, and in a format that assists in readability and comprehension.

### 2.2 Responsibilities of the Employer

**Employer** – a person or entity that employs members for remuneration and who is required to make contributions to member accounts in the DC pension plan.

The employer is responsible for deducting member contributions and remitting them to the pension fund along with employer contributions, within the time periods and in the amounts required by applicable pension standards legislation, the terms of the DC pension plan, and any collective agreements. By fulfilling these responsibilities, the employer meets its funding obligation and ensures the pension fund’s assets are held separate and apart from its own assets. The employer is also responsible for keeping accurate and up-to-date records on each member’s service and earnings, and any other information that is required by the plan administrator. In addition, the employer must provide this information to the plan administrator in a timely manner.

### 2.3 Responsibilities of the Plan Sponsor

**Plan sponsor** – the person or entity responsible for designing and establishing the DC pension plan and setting the benefit structure for various classes of members. The plan sponsor is often the employer.
When DC pension plan sponsors decide to establish a plan, they assume certain responsibilities in their role as the DC pension plan sponsor. The DC pension plan sponsor is responsible for establishing the pension plan, and for ensuring that it always has a plan administrator. They may also be responsible for making amendments to the pension plan and deciding if it should be wound up.

The DC pension plan sponsor should ensure that decisions about establishing and maintaining the plan, any amendments to the plan and information about how those decisions are made, are properly documented and that the documents are retained.

2.4 Responsibilities of Third-Party Service Provider

This Guideline continues to apply to the plan even if plan responsibilities are delegated to a service provider.

Service providers should have the appropriate level of knowledge and skill to perform the tasks they have accepted delegation on, including the provision of any advice within their area of expertise which may be requested by the plan administrator.

2.5 Responsibilities of the Fund Holder

The fund holder holds all or part of the pension fund’s assets exclusively for the DC pension plan. (For further details, see CAPSA Guideline No. 5.)

2.6 Responsibilities of the Members

For DC pension plans which allow members to make investment choices for their individual DC accounts, members are responsible for making investment decisions within the plan and for using the information and decision-making tools made available to assist them in making those decisions. Those members are accountable for investment decisions they make within the plan and are responsible for continually assessing whether their retirement needs and goals will be achieved. They should consider obtaining investment, financial planning and retirement planning advice from qualified advisors, in addition to using any information or tools the plan administrator may provide. They should also notify the plan administrator of errors in their personal data which they identify, and keep their investment instructions up to date.

Examples of decisions made by DC pension plan members include:

- If permitted by the terms of the DC pension plan, determining the amount they will contribute to the plan.
- Selecting investments.
- Determining the amount they will invest in any particular investment option.
- Determining whether they need to change their investment options.
- Selecting an option at termination and filing all documents with the plan administrator.

If participating in a variable benefit product, DC pension plan members should also:

- On a timely basis, determine their withdrawal amount from the plan each year, taking into account any prescribed limits.
- Use any information and decision-making tools provided, to examine the impact of their withdrawal choices on their future retirement income.
CAPSA GUIDELINE NO. 8
DEFINED CONTRIBUTION PENSION PLANS GUIDELINE

- Understand the impact of withdrawal choices on the amount of retirement income available for their lifetime.
- Periodically use any information or decision-making tools provided to re-evaluate their risk profile and investment choices.

3.0 INFORMATION FOR MEMBERS DURING ACCUMULATION PHASE

DC pension plan administrators should provide members with information and tools at key intervals (e.g. when members join the plan and periodically thereafter) to assist them in determining their retirement needs and goals, and how they may achieve their goals.

The CAP Guidelines provide guidance on the information that should be provided to members during the accumulation phase. That guidance includes:

- Providing information to new plan members, including a description and the amount of all fees, expenses and penalties relating to the plan that are borne by the members.
- Providing investment information and decision-making tools for members.
- Providing ongoing communication to members.

Sections 3.1 through 3.3, below, are intended to supplement the information provided in the CAP Guidelines.

The responsibility of providing this information to members rests with the plan administrator, although the delivery of this information may be delegated to third party service providers.

3.1 Information Regarding Investment Choices

Most DC pension plans allow members to make investment choices for their individual DC accounts, although the plan usually provides a limited number of options from which these choices can be made. In some DC pension plans, the plan administrator is responsible for the investment decisions. In all cases, the investments must comply with the rules set out in pension standards legislation and the ITA.

The plan administrator should provide members with useful and relevant information regarding the level of fees payable by the member or through the member’s account, including asset based fees that are payable with respect to each investment option. This information should be provided to members at least annually, and also whenever investment options or fees are changed.

For plans which allow members to make investment choices, plan administrators should provide to members:

- Sufficient detail on the investment options available in the plan so they can make informed investment decisions.
- Information on any changes to the menu of investment options available.
- Information on how their contributions will be invested if they do not provide investment instructions (i.e. the default investment option).

For plans which do not allow members to make investment decisions, plan administrators should provide information to members on how their contributions will be invested.

Each annual statement and any termination statement that a member receives should disclose the level of fees payable by the member or through the member’s account, including asset based fees that are payable with respect to each investment held in the account. If termination statements provide members with the option to move funds out of the plan and into investments with the current service provider, then the fees related to those investments should also be disclosed in the termination statement.
3.2 Information Regarding Contributions

Each jurisdiction has minimum legislative requirements regarding disclosure, and this guidance is in addition to these minimum requirements (where differences exist).

Plan administrators should provide information which includes:

- Formulae for member’s required contributions and any optional contributions (if applicable) and an explanation of how to select or change a contribution rate (if members must elect a contribution rate within a particular range).
- Formulae for employer contributions.
- Timing of member and employer contributions.
- Treatment of voluntary contributions (if permitted).
- How interest and earnings on contributions are to be applied.
- How and when contributions are vested and locked-in, and an explanation of what these terms mean.
- How and in what circumstances contributions can be withdrawn.
- Identification of any funds which are considered non locked-in by the plan and applicable legislation, and of any unlocking opportunities provided under plan rules and applicable legislation.
- Description of how any transfers into the fund will be treated.
- Explanation of options regarding maximizing employer matching contributions.

3.3 Information and Tools Regarding Estimates of Account Balances and/or Benefits

Plan administrators should provide members with information and tools to help them understand and estimate their plan benefits on retirement. These tools should take into account applicable assumptions needed to project benefits, including the impact of fees.

Plan administrators should provide members, at least annually, with an estimate of the value of the member’s account at retirement. They should also consider providing members, at least annually, with an estimate of the benefit that may result from that value.

Assumptions used to estimate the value at retirement or an expected periodic (e.g. monthly) income stream should be reasonable, and should be reviewed periodically. Plan administrators should demonstrate prudence in establishing appropriate assumptions. Plan administrators could use assumptions which are either internally or externally developed.

Plan administrators should disclose the assumptions used to arrive at an estimated future benefit and/or value, including the assumed level of fees, and should clearly state how the estimate can be affected if different assumptions are used.

Plan administrators should clearly indicate that actual future account values and benefits will likely differ from estimates.

Plan administrators should describe to members the purpose of the pension plan. Members should be informed that other sources of income or savings may be necessary to achieve their retirement income goals.

4.0 Information for Members Who Are Approaching the Payout Phase

Each jurisdiction has specific legislative requirements for the information to be provided to a member on cessation of membership in DC pension plans without a variable benefit component. DC pension plans with a variable benefit component continue a relationship with a member even during the decumulation or payout phase. The CAP Guidelines also provide guidance on communicating to members...
CAPSA GUIDELINE NO. 8
DEFINED CONTRIBUTION PENSION PLANS GUIDELINE

regarding termination of participation in a plan, including retirement.

The CAP Guidelines state that the following information should be provided:

- Options available to the member.
- Any actions the member must take.
- Any deadlines for member action.
- Any default options that may be applied if no action is taken.
- The impact that the termination of plan membership will have on each investment option.

This information, where applicable, should also be provided to members of plans where no investment choice is available during the accumulation phase.

The information in Section 4.1 is intended to supplement the information provided in the CAP Guidelines.

4.1 Information Regarding Retirement Products

It is expected that the plan administrator will provide information regarding all of the regulated retirement products available to members with respect to the payout phase, which may include (depending on legislation in each jurisdiction, subject to change):

- Locked-in Retirement Account (LIRA) or Locked-in Registered Retirement Savings Plan (Locked-in RRSP).
- Locked-In Retirement Income Fund (LRIF).
- Life Income Fund (LIF).
- Life Annuity Contract.
- Prescribed Registered Retirement Income Fund (pRRIF).
- Variable Benefit.

Plan administrators should provide information which assists members in making informed decisions with respect to their retirement options.

Along with the retirement statement, plan administrators should provide information regarding the level of fees payable by the member or through the member’s account, including asset based fees that are payable with respect to each investment held in the account. As well, if the retirement statement provides retiring members with an option to move funds out of the plan and into investments with a current service provider, then the fees related to those investments should also be made available.

Members should be provided with information regarding any unlocking options which may be available at the time of retirement.

Before making an election, members should consider obtaining investment, financial planning and retirement planning advice from qualified advisors in addition to using any information provided by the plan administrator.

For further details on the information and general features regarding retirement products that plan administrators may provide to members, see: CAPSA Reference Document: Registered Retirement Products for DC Plan Members.

4.2 Variable Benefit Products

If variable benefit products are an option under the pension plan, it is expected that the plan administrator will also:

- Disclose any changes in investment options available to the member, including any changes in the default option.
- Disclose any changes in fees and additional fees charged as a result of entering the decumulation stage.
- Provide information about changes in risk tolerance when entering the decumulation stage.
- Provide information about longevity risks and investment risk and the impact those risks could have on the member’s retirement income.
5.0 INFORMATION FOR MEMBERS DURING THE PAYOUT PHASE

The only time that the plan administrator is responsible for ongoing communication during the payout phase is when the payout product is a variable benefit.

Where a variable benefit is permitted in a jurisdiction, pension standards legislation sets out information that the plan administrator must provide to the variable benefit owner. The plan administrator should also consider relevant sections of the CAP Guidelines and this Guideline to determine what information to provide to members with variable benefit accounts.

In the case of retirement products other than variable benefits, the information provided to the contract owner will be stipulated by the institution holding the funds according to legislative requirements.

5.1 Information Regarding Withdrawals from a Variable Benefit Plan

Each jurisdiction has legislative requirements regarding withdrawal rates, and this guidance is in addition to those legislative requirements.

For plans which allow members to make investment choices, plan administrators should provide to members:

- Sufficient detail on the investment options available in the plan so they can make informed investment decisions.
- Information on any changes to the menu of investment options available.
- Information on how their contributions will be invested if they do not provide investment instructions (i.e. the default investment option).

Plan administrators should also consider providing:

- Information on withdrawal amount options including any minimum and maximum withdrawal requirements.
- Information on sustainable withdrawal rates.
- Income estimates based on a range of investment return assumptions (pessimistic, best estimate, and optimistic) and withdrawal patterns or an income projection tool that accommodates varying investment return assumptions and withdrawal patterns.

If income estimates or income estimation tools are made available, plan administrators should clearly indicate that actual future income patterns will likely vary from estimates. The assumptions used in the estimates should be clearly stated.

Plan administrators should provide clear instructions on how and when members should inform them of their chosen withdrawal amount.

If participating in a variable benefit product, DC pension plan members should consider obtaining investment, financial planning and retirement planning advice from qualified advisors.

6.0 ADVERSE AMENDMENTS FOR DC PENSION PLANS

Adverse amendments are amendments which negatively affect the prospective benefits, rights, obligations or entitlements of members or other persons entitled to payments from the fund.

Although not an exhaustive list, the following may be considered to be adverse amendments for DC pension plans by some jurisdictions:

withdrawal rate. A projection tool could be made available to members as part of the information provided for this purpose.
CAPSA GUIDELINE NO. 8
DEFINED CONTRIBUTION PENSION PLANS GUIDELINE

- Reduction of employer and/or increase in employee contributions.
- Changes in expense allocation (e.g. who pays for administrative expenses).
- Lengthening vesting requirements (e.g. immediate to two years).

6.1 Disclosure of Adverse Amendments for DC Pension Plans

Some jurisdictions may require the DC pension plan administrator to provide written notice to certain parties such as affected members and other plan beneficiaries, and trade unions (if applicable), before an adverse amendment is registered. These could include but are not limited to:

- Deferred vested members.
- Active members.
- Retired members.
- Survivors who are entitled to or are receiving benefits from the plan.
- Former pension partners who are entitled to benefits from the plan due to a property settlement as a result of a breakdown in a spousal relationship.
- Beneficiaries of deceased members who have not yet been paid out.
- Trade union of affected members.

Plan administrators should provide a written explanation of the amendment to the parties within the time limit required by the appropriate legislation.
Study Guide Module 13

**Capstone Case, Appendices**, Replace the current Appendix A, Financial Services Commission of Ontario (FSCO) Investment Guidance Notes IGN-003, Statements of Investment Policies and Procedures (SIPPs) for Member Directed Defined Contribution Plans with the January 2016 version on the attached pages.
1.0 Purpose

As a result of recent amendments to the federal *Pension Benefits Standards Regulations, 1985* (PBSR) and to Regulation 909 (the Regulation) under the *Pension Benefits Act* (PBA), the requirements have changed for the statement of investment policies and procedures (SIPP) for plans where the members direct the investment of the assets in their accounts (i.e., member-directed defined contribution (DC) plans and combination benefit or hybrid plans with member-directed accounts).

This guidance note sets out FSCO’s expectations regarding the content of SIPPs for these types of plans in light of these changes; it does not apply to defined benefit (DB) plans, or to DC plans where the administrator directs the investment of the assets.

2.0 Background

2.1 SIPPs and the PBA

Under section 78(1) of the Regulation, the administrator of a pension plan (administrator) is required to establish a SIPP for the plan. A SIPP is a document that contains investment policies and procedures in respect of a plan’s portfolio of investments and loans. The content
requirements of the SIPP reflect the federal investment regulations as modified in sections 47.8 and 79 of the Regulation.

Under section 22 of the PBA, an administrator is responsible for administering and investing the pension fund in accordance with the administrator’s standard of care, in a prudent manner, and in the best interests of the pension plan’s beneficiaries. It is the responsibility of the administrator to determine what prudence requires in the context of the plan and fund that it administers. The administrator must determine the investment policies and procedures to be set out in the SIPP, implement a review and approval process, and monitor compliance with the SIPP, all in accordance with the administrator’s fiduciary duties.

The administrator should document the rationale for key investment policies and procedures, although this does not necessarily have to be documented in the SIPP itself.

2.2 Federal Investment Regulations

The federal investment regulations (FIR) are defined in section 66 of the Regulation as sections 6, 7, 7.1 and 7.2 and Schedule III to the Federal PBSR made under the Pension Benefits Standards Act, 1985 (Canada) as they may be amended from time to time. The FIR are incorporated by reference in sections 78 and 79 of the Regulation. The Regulation also modifies the application of the FIR with respect to Ontario plans.

Under the amendments to section 7.1 of the PBSR, which came into force on April 1, 2015, the SIPP established for a federally registered pension plan does not need to address the assets of a “member choice account”, as defined in the PBSR. A member choice account is essentially an account under a DC plan or DC provision of a combination benefit or hybrid plan for which the member or other beneficiary is permitted to make the investment choices.

The Federal Government has instead introduced a series of disclosure requirements concerning investment options offered under the member choice accounts. These new disclosure requirements, however, will not apply to Ontario pension plans as they are not incorporated by reference into the PBA.

3.0 PBA Content Requirements for SIPPs of Member-Directed DC Plans

The Ontario requirement for the establishment of a SIPP is not contained in the FIR, but directly in section 78 of the Regulation; therefore, member-directed DC plans are still required to establish a SIPP and the SIPP for other plans with member-directed accounts must still address the investment of such accounts. However, the content requirements set out in section 7.1 of the PBSR no longer apply with respect to the investment of member-directed accounts.

The SIPP for these plans must be consistent with the applicable portions of the FIR as modified in sections 47.8 and 79 of the Regulation. Where there is a conflict between the SIPP and the FIR as modified in sections 47.8 and 79 of the Regulation, the FIR as modified takes precedence. The administrator should amend the SIPP to eliminate the conflict.

1 Section 78 of the Regulation requires the SIPP to meet the requirements of the FIR as modified in sections 47.8 and 79 of the Regulation. Section 79 of the Regulation requires the assets of every pension plan to be invested in accordance with the FIR despite the provisions of the plan or an instrument governing the plan. Effective January 1, 2016, section 79 of the Regulation requires the assets of the plan to be invested in accordance with the FIR, as modified, and with the SIPP.
The SIPP must also include information as to whether environmental, social, and governance (ESG) factors are incorporated into the plan’s investment policies and procedures, and if so, how those factors are incorporated. Reference should be made to FSCO Investment Guidance Note 004: Environmental, Social and Governance (ESG) Factors for more information.

4.0 Other Content for SIPPs for Member-Directed DC Plans

As the SIPP contains the investment policies and procedures in respect of the plan’s portfolio of investments and loans, and the SIPP must be developed in accordance with the administrator’s standard of care under section 22 of the PBA, FSCO expects that the administrator will give due consideration to including the following information in the SIPP:

1. **General investment principles.** This includes investment principles and assumptions that helped shape the DC plan/provision’s investment program. While these may vary from plan to plan, examples include the administrator’s views on active and passive management, the use of life cycle or target date funds, and the approximate number of investment options to be made available to plan members.

2. **Permitted asset classes from which investment funds can be selected.** The SIPP should identify from which asset classes investment funds may be selected. If the plan is exclusively employing life cycle or target date funds, then it may indicate so instead of specifying permitted asset classes.

3. **The default investment option for member accounts where no selection is made.** The default option should be appropriate given relevant factors, such as demographics of the plan membership and the interest rate environment. If the plan does not have a default option, the SIPP should outline what happens if a member does not make an investment choice.

4. **Selecting, monitoring, and terminating investment managers and funds.** This should include the processes and criteria to be followed in the selection, monitoring, and termination of investment managers and funds, as deemed prudent by the administrator given the nature of the plan. In determining appropriate criteria to be considered in selecting investment managers and funds, administrators may wish to refer to CAPSA Guideline No. 3: Guidelines for Capital Accumulation Plans (May 2004). The SIPP should also identify the party responsible (i.e., the administrator or its agent) for measuring investment performance, and assessing compliance by investment funds with applicable SIPP policies and procedures, and the frequency of reporting on both to the administrator.

5. **Plan expenses and investment fees related to the DC plan/provision.** This should include indicating which categories of expenses and fees will be paid by the employer and which will be borne by plan members; expectations, ranges, or limits on total plan expenses and fees; and guidelines for monitoring expenses and fees.

6. **Related party transactions.** The SIPP should document the policies and procedures pertaining to related party transactions permitted under section 17 of Schedule III to the PBSR and the criteria to be used to establish whether a transaction is nominal or immaterial to the plan under the related party rules. As fiduciaries of the plan, administrators are also required to avoid or
manage other conflicts of interest that may arise. Administrators may wish to address the broader topic of conflicts of interest in the SIPP or other policy document.

7. **Information guidelines for plan members on investment options.** The policy should identify at a high level the categories of information to be provided to plan members concerning their investment choices under the plan (e.g., educational information or tools to be provided to members, descriptions of available investment options, any timing requirements that apply to the making of an investment choice, etc.). Administrators may wish to refer to CAPSA Guidelines No. 3: Guidelines for Capital Accumulation Plans and No. 8: Defined Contribution Plans Guideline, and the new regulations on member choice accounts prescribed in section 7.3 of the PBSR.  

If any of the items described above are set out in a separate policy or procedure document, such document may be incorporated by reference into the SIPP. If the administrator chooses to incorporate by reference any other policy or procedure document, the document will form part of the SIPP and, therefore, must be filed pursuant to section 78 of Regulation 909. (Alternatively, the administrator can simply include relevant excerpts from the policy or procedure in the SIPP.)

### 5.0 Other Important PBA SIPP Requirements

The SIPP for a member-directed DC plan (or which pertains to member-directed accounts) is also subject to other regulatory requirements under the PBA, including those described below. This is meant as a summary only, and administrators should refer to the relevant sections of the PBA, the Regulation, and relevant FSCO policies directly for further information.

- Starting in 2016, administrators will need to file the SIPP with FSCO. The filing is to be done through the Pension Services Portal (see section 78 of the Regulation).
- Starting on January 1, 2016, the assets of the plan must be invested in accordance with the SIPP (see section 79(1) of the Regulation). Plan assets must also continue to be invested in accordance with the FIR, as modified by the Regulation.
- Administrators must make their SIPPs available to plan members and other prescribed stakeholders upon request (see section 29 of the PBA and section 45 of the Regulation).
- Effective July 1, 2016, administrators must include prescribed statements about the SIPP in annual statements to members, and in biennial statements to former and retired members, if applicable (see sections 40, 40.1 and 40.2 of the Regulation).

---

2 Related party transactions are just one subset of the potential conflicts that plan administrators may face. Related party transactions have been singled out in this guidance note in deference to the requirements for SIPPs for other types of plans under section 7.1(1) of the PBSR.

3 Section 7.3 of the PBSR (which is not yet in force) is not incorporated by reference into the Regulation, and, therefore, Ontario pension plans are not required to comply with this subsection. The requirements set out in section 7.3 may nevertheless serve as a useful guideline for administrators.
6.0 Assistance and Reference Materials

The SIPP is a plan document that addresses a wide range of technical topics and which must meet regulatory requirements. As such, the preparation, review and revision of the SIPP will require a fairly high level of technical knowledge and expertise. If the administrator does not feel it possesses adequate knowledge and expertise, it has a fiduciary duty to seek external expert assistance in this regard.

In establishing or reviewing a SIPP, administrators and their advisors may wish to review the following materials for additional guidance and information:

- FSCO Investment Guidance Note 004: Environmental, Social and Governance (ESG) Factors.

7.0 Review of SIPP

SIPPs for member-directed DC plans are not subject to the annual review requirements of section 7.2 of the PBSR. Nevertheless, in keeping with the standard of care under section 22 of the PBA, the administrator should review the SIPP when certain triggering events occur, such as major plan events (e.g., wind up, downsizing or asset transfer), material changes in the plan’s investment principles, changes in key service providers (e.g., DC plan provider, key managers), or changes to relevant legislation.

Even where there are no specific triggering events, the administrator should ensure that the SIPP is periodically reviewed in order to ensure it remains relevant given changes in prudent investment practices or the external environment (e.g., economic trends).

Any time the SIPP is amended, the SIPP amendment (or the amended SIPP in its entirety) must be filed with FSCO within 60 days of the amendment, as per section 78 of the Regulation.