

Supplemental Pension Plans

Newsletter

Number 20, June 2006

Application of the *Guidelines for Capital Accumulation Plans* of the Joint Forum of Financial Market Regulators to supplemental pension plans

The Joint Forum of Financial Market Regulators coordinates, harmonizes and simplifies the regulation of financial products and services in Canada.

The Forum has published *Guidelines for Capital Accumulation Plans*. The *Guidelines* took effect on 1 January 2006.

The *Guidelines* reflect what supervisory bodies expect of the sponsors of capital accumulation plans and of plan administrators, service providers and members.

However, they are not compulsory rules of conduct.

The purpose of this *Newsletter* is to inform the administrators of capital accumulation plans of the main points of the *Guidelines* and their application to supplemental pension plans.

The *Newsletter* also provides information that plan administrators can take into account in their administration of a pension plan.

What is a capital accumulation plan?

A capital accumulation plan is a group investment or savings plan that gives entitlement to a tax benefit and that allows its members to choose their investments.

It may be a group registered retirement savings plan, a group registered education savings plan or a deferred profit sharing plan.

Some supplemental pension plans are covered by the *Guidelines*:

- defined contribution plans that allow members to choose their investments;
- defined benefit plans with a defined contribution component that allows members to choose their investments;
- simplified pension plans, since they always allow members to choose their investments.

Objectives of the *Guidelines*

The *Guidelines* have two objectives:

- define the responsibilities of sponsors, administrators, service providers and members;
- ensure that members receive the information and assistance that they need to make informed investment decisions.

Responsibilities of plan sponsors and administrators

The *Guidelines* provide that plan responsibilities are incumbent on the sponsor, who is usually the employer.

Several of the responsibilities that the *Guidelines* place on sponsors are similar to those that plan administrators have under the *Supplemental Pension Plans Act*.

Under the *Act* the administrator is:

- either the pension committee;
- or the financial institution that administers a simplified pension plan.

It is therefore one of the responsibilities of plan administrators to provide information to plan members.

It must be noted that the *Guidelines* do NOT change the division of responsibilities between the plan sponsor and administrator, as set out in the *Act*.

The *Guidelines* include some responsibilities that are not covered by the *Act*, including:¹

(1) Choice of the investment options to be offered

The plan administrator should see to it that the plan offers a broad range of investment options, based on various criteria, such as risk level and degree of diversification.

Investment options include in particular investment funds and guaranteed investment certificates.

Within reasonable limits, the administrator should allow plan members to transfer their investments from one option to another at least once every three months.

(2) Information on the investments and investment options offered to members

The administrator should determine the type of information to provide to plan members on investments in general and on the specific investment options offered by the plan. For example, members can be informed about:

- risk levels and rates of return for the various investment options;
- how investment funds operate;
- performance reports on the rates of return on investment funds offered by the plan;
- the investment objectives of an investment fund.

1. The list of responsibilities mentioned in this *Newsletter* is not exhaustive. In some situations, some responsibilities not mentioned here may be of great importance. The reader should consult the *Guidelines* to be fully informed on his or her responsibilities.

(3) Tools members can use to choose their investments

The administrator should provide plan members with tools to help them decide which investments to select, for example:

- questionnaires on their investor profile;
- calculators to project the future value of investments;
- models for asset distribution.

(4) Investment advice

The administrator may want to hire an investment advisor (or recommend one) to give general advice to members.

In choosing an investment advisor, the administrator should use suitable criteria, which may include the following:

- criteria generally used for selecting service providers (e.g., quality and continuity of the services offered, the cost of services provided, etc.);
- the absence of complaints and disciplinary measures involving the advisor or the advisor's firm;
- the legal requirements that must be met for a person to provide investment advice (e.g., registration with the Autorité des marchés financiers du Québec).

(5) Performance reports on rates of returns for investment funds

At least once a year, the administrator should send plan members performance reports on the yields of each investment fund. Such reports should include the following:

- the name of the fund whose yields are reported;
- the fund's rate of return for the last year or the last 3, 5 or 10 years, if available;
- an indication as to whether the rate of return is determined before or after deduction of various charges.

If these responsibilities and the others listed in the *Guidelines* are properly carried out by the administrator, the plan members will have the information and help needed to make informed investment decisions.

Members' responsibilities

Plan members have the responsibility to make investment decisions for their plan funds. They should use the information and the decision-making tools provided to them.

It is up to each of them to decide whether or not to consult an investment advisor.

Application of the *Guidelines* by administrators

The *Guidelines* do not have force of law and thus are not compulsory. The Régie des rentes du Québec considers, however, that they constitute a primary reference for all capital funding supplemental pension plans.

The courts could use them to judge whether or not an administrator's plan management is prudent.

Precautions in regard to service providers

Since the *Guidelines* are not compulsory, an administrator who uses a service provider should be prudent and stipulate in the service contract that the provider must follow the *Guidelines*.

Where to obtain the *Guidelines*

You can consult the [Guidelines for Capital Accumulation Plans](#) on the Joint Forum of Financial Market Regulators' Web site, at www.jointforum.ca, under the headings Publications, Final Documents or obtain a copy at the following address:

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