

May 1, 1998

MEMORANDUM

To: Administrators of federally-regulated pension plans under
the *Pension Benefits Standards Act, 1985 (PBSA)*

From: Ronald J.M. Bergeron
Senior Director
Private Pension Plans Division

Subject: Guideline for Governance of Federally Regulated Pension Plans

This guideline describes best practices for the governance of federally regulated pension plans, and the responsibilities of plan administrators. The practices promoted by the pension industry in general are reflected in this guideline. It presents OSFI's current views on plan governance, applicable to all pension plans subject to the *Pension Benefits Standards Act, 1985*. The parties OSFI supervises have a right to know what the office expects from them. As governance evolves, OSFI has come to the conclusion that detailed regulation of the administration of pension plans by this office is ineffective and counterproductive. The main purpose of this guideline is to help administrators in their work and to promote prudent and sound governance practices. However, OSFI does not intend to provide a "safe harbour" for administrators, who remain responsible for their decisions and actions; this paper should encourage thought on governance issues not curtail it.

OSFI continues a targeted, proactive inspection of pension plans and retains the authority to direct compliance with the minimum standards of the *PBSA* and associated regulations. This guideline supports those minimum standards, and also guides OSFI's assessment of risk regarding governance in pension plans.

Queries with respect to this guideline should be directed to Pirjo Davitt, Manager, Operations and Policy, Private Pension Plans Division, Office of the Superintendent of Financial Institutions, 255 Albert Street, Ottawa, K1A 0H2, telephone: (613) 990-7867, fax: (613) 990-7394, or e-mail: penben@osfi-bsif.gc.ca.

This document is also available at OSFI's website at www.osfi-bsif.gc.ca or by phoning (613) 990-7655.

Attach.

**Guideline for Governance
of Federally Regulated Pension Plans**

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1.0 Introduction

Pension plan governance refers to the roles and responsibilities of all persons in respect of a pension plan to fulfil their fiduciary obligations. In general, good governance promotes the timely and cost-effective delivery of benefits and promotes the administration of the plan in the best interests of the plan members and beneficiaries. Good governance requires appropriate control mechanisms that encourage good decision making, proper and timely execution, and regular review and assessment. While good governance will not, in and of itself, guarantee good performance of a plan, it does contribute to its success.

Further, good governance may reduce potential liability for the plan sponsor, the administrator, and associated advisors. Good governance demands a clear accountability for every decision made with respect to a pension plan. This accountability leads to better plan administration.

The *Pension Benefits Standards Act, 1985 (PBSA)* prescribes the general standard of care for the administration of pension plans. Trust law also imposes fiduciary duties on administrators. (See Appendix I - Legal Environment.) Increasingly, governance has the attention of pension plan sponsors, beneficiaries, courts and regulators. As governance evolves, OSFI has come to the conclusion that detailed regulation of the administration of pension plans by this office is ineffective and counterproductive. For many aspects of pension administration, it is best to refer to the objectives of the plan and the standard of care required of administrators in achieving these objectives.

This guideline highlights issues administrators should consider when developing and reviewing a governance framework for a pension plan. Its main purpose is to help administrators in their work and to promote prudent and sound governance practices.

2.0 Principles of Good Governance

A few simple principles underlie good governance of pension plans.

- clearly stated objectives;
- independence of the governing body from the plan sponsor(s);
- separation of governance from operations, clearly defined roles and responsibilities;
- accountability and internal controls;
- adequate knowledge and skill sets;
- due diligence in decisions and supervision of delegated work;
- controls for expenses and protection from conflicts of interest; and

- transparency and full disclosure.

In addition to discussing the general principles of good governance, Appendices to this paper also examine how these principles may be applied to specific situations and examples.

3.0 Structure

A plan "sponsor" may establish, amend and terminate a pension plan, subject to contractual agreements, plan provisions and relevant legislation. The objectives of the plan are defined by the plan sponsor through plan documentation. While it is recognized that the plan sponsor plays a dual role in the pension plan it sponsors, the focus of this paper is the sponsor's actions as a plan fiduciary administrator, rather than as a sponsoring employer or union.

Each pension plan must have an administrator. The administrator has two distinct roles with respect to the pension plan:

- a "trustee" role which encompasses setting overall direction and providing supervision, and
- a "manager" role in carrying out the day-to-day administration.

In a multi-employer pension plan established pursuant to a collective agreement, a board of trustees oversees the administration performed by contractors, by employees of the pension plan or by the union. Usually, in the case of a plan established by a single employer, the corporate board of directors, a pension committee of the board, or a senior officer of the company may oversee the administration performed by internal plan managers, external agents and advisors.

While the administrator may delegate management functions, accountability for direction-setting and supervision can not be delegated. To the greatest extent possible, the supervision functions should be independent of the management functions. The chain of delegation should be documented and performance objectives and reporting relationships established between the two roles.

The prime obligation of the administrator is to act in the best interests of the plan members and beneficiaries. The administrator has fiduciary obligations whether it is acting as a "trustee" or a "manager".

4.0 Execution

Governance of a pension plan includes the supervision of administration, assessing whether the objectives of the plan are being met, and whether the people responsible for administration are performing their tasks properly.

4.1 Documentation

Pension plans are instituted by a plan text and related records. The plan documentation is the expression of the plan's objectives and should be consistent with the actual obligations under the plan. This is to ensure that the administrator (in both the trustee and manager roles) has written direction to perform the work and the plan beneficiaries can learn their entitlements under the plan. Promises outside the official plan text are inconsistent with the ideals of full disclosure, clear statement of objectives, and internal controls. They lead to misunderstanding by members, and those charged with funding the plan and managing the plan's financial risks.

4.2 Benefit Administration

Since required by the *PBSA* to act as a trustee for the employer, members and other beneficiaries, the administrator must serve the objectives of the plan. Foremost of these for a pension plan is to provide benefits to members. To this end the administrator should:

- implement plan provisions;
- interpret provisions consistently with the objectives of the plan;
- use discretionary powers in a fair, transparent and objective manner;
- seek clarification for unclear plan provisions, with the help of legal counsel or courts where necessary;
- keep accurate and complete records; and
- ensure compliance with the minimum standards of the *PBSA* and other governing statutes.

4.3 Compliance

Failure to conform with the legislation may jeopardize the plan's ability to meet its obligations to members. Compliance is the administrator's responsibility as OSFI does not have a mandate to verify that every plan provision meets the standards of the *PBSA*.

To meet its obligation to act prudently, the administrator should seek professional help in areas where it does not have the required expertise, and maintain well trained and qualified personnel to meet the compliance obligations of the plan.

4.4 Funding and Investments

The strategic planning for a defined benefit plan should project both funding and investment policy together, and should examine how contributions and solvency will vary under a variety of plausible scenarios. This work is best done with help from both the investment manager and the actuary.

The role of the administrator is to ensure that the funding levels are adequate to permit the payment of benefits. The following responsibilities may be included in the trustees' management of the funded status of the plan:

- to review the adequacy of required contributions to meet current and future needs;
- to investigate the sensitivity of the plan to economic and demographic conditions;
- to determine the desired level of surplus needed as a cushion against potential downturns; and
- to maintain the desired level of benefit security by recommending the restraining or reshaping of benefits, modifying investment policy, or recommending accelerating contributions.

In a defined contribution plan, the role of the administrator is to commission the build-up of the optimum amount of assets in the members' accounts to secure a reasonable retirement income, and to communicate clearly to the members the risks inherent in defined contribution plans.

In addition, all pension plan administrators must have procedures in place to:

- collect, receive and validate contributions from employers and employees;
- keep assets of the plan separate from the assets of the employer; and
- invest plan assets prudently and in accordance with the plan's investment policy and applicable legislation.

4.5 Internal Controls

Every pension plan should have an internal control framework in place to ensure policies are implemented, funds are managed prudently and benefits are paid in accordance with plan provisions. The administrator acting in its capacity as trustee should understand and approve the framework and the written internal control procedures supporting the framework.

Internal control procedures should:

- identify responsibilities and accountabilities;
- set out the process for recommending, approving, and implementing decisions; and
- prescribe the frequency and format of reporting.

There should be procedures in place to ensure that the plan provisions are being interpreted consistently and benefits paid correctly. Exceptions, such as those arising where plan provisions are not clear or where there is room for some discretion, should be reviewed and approved by the administrator acting in its trustee capacity.

In addition, the pension plan should establish clear written rules regarding administration, investment and other plan expenses.

5.0 Quality of Governance

Governance should be reviewed continuously to meet emerging challenges. A review of the trustee's own performance should at least investigate the following:

- does the trustee have an appreciation of its fiduciary duties;
- is the duty of loyalty to the plan and its beneficiaries paramount over the interests of the organization that appoints the trustee and other players and related parties;
- does the governance of the pension plan serve the objectives of the pension plan;
- has the plan trustee defined expectations for plan managers and assigned clear accountabilities for results;
- is the code of conduct well articulated to guide the trustee (are there adequate control mechanisms in place to protect the plan from conflicts of interest and dishonest or incompetent trustees, managers and advisors);
- does the plan trustee have adequate information to perform its duties to monitor the risks facing the plan and to map out strategies to manage the risks; and
- how has the plan trustee performed.

Trustee performance can be evaluated through benefit security and delivery appraisals, plan membership satisfaction surveys, or another form of self assessment in combination with disclosure to members. The trustee should assess whether it has delivered on the objectives of the plan and behaved well in doing so. The trustee should also determine whether to report the findings and to whom.

It is the responsibility of the administrator in its capacity as the plan trustee to challenge itself about rationale for actions and due diligence processes.

END

Appendix I — Legal Environment

Section 8 of the *PBSA* gives the general standard of care for the administration of pension plans:

- 8(3) The administrator shall administer the pension plan and pension fund as a trustee for the employer, the members of the pension plan, former members, and any other persons entitled to pension benefits or refunds under the plan.
- 8(4) In the administration of the pension plan and pension fund, the administrator shall exercise the degree of care that a person of ordinary prudence would exercise in dealing with the property of another person.
- 8(5) Without limiting the generality of subsection 8(4), an administrator who in fact possesses, or by reason of profession or business ought to possess, a particular level of knowledge or skill relevant to the administration of a pension plan or pension fund shall employ that particular level of knowledge or skill in the administration of the pension plan or pension fund.

Trust law also imposes fiduciary duties on administrators:

- to be loyal to the interest of the plan;
- to act reasonably and prudently;
- to prevent personal interests from conflicting with those of the plan;
- not to profit from actions taken as fiduciary and to account for unauthorized profits; and
- to be evenhanded, when faced with competing (legitimate) interests.

Administrator According to the *PBSA*

- For multi-employer pension plans established pursuant to one or more collective agreement(s), the administrator is a board of trustees or similar body.
- For plans not established pursuant to a collective agreement by groups of employers who are not affiliated, the administrator is a pension committee as defined in section 7(1)(b) of the *PBSA*.

- For other plans the administrator is the employer, unless it is established pursuant to one or more collective agreement(s), in which case the administrator is a board of trustees, or similar body, or the employer as specified by the plan.
- For simplified pension plans, the administrator is the financial institution.

Bill S-3 proposals are included in this definition of "administrator".

Appendix II — Supervision and Management

While the administrator in its trustee capacity must oversee the operation of the plan, certain activities and day-to-day administrative functions are often delegated to plan managers. The following examples explore this relationship and accountabilities in specific plan situations.

1. Pension Plan Objectives and Policies

The administrator must ensure that the plan will continue to provide the benefits it promises. A key role in the governance of any pension plan is setting strategies on how to deliver on those promises. The administrator, in its trustee capacity, is accountable for the implementation of those strategies, and must authorize them before they are carried out. Managers and outside experts do advise, particularly on technical issues, but are accountable only to the extent that activities have been delegated to them. If they are to be given discretion, managers should also be instructed to achieve certain objectives. For instance, an investment manager's choice of certain investments will be guided by the plan's policies regarding benchmarks, return rate expectations, asset management styles, diversification and liquidity requirements.

Fully understanding the plan's policies is key for sound governance. While the experts are responsible for the advice they provide, it is essential that the administrator, in its role as a trustee, evaluate the advice it receives in the context of its own knowledge and experience, question the experts and recognize the potential limitations of the expertise. For example, the actuarial consultant may be able to demonstrate the existence of excess assets under certain assumptions, and the legal counsel may advise on the interpretation of the plan documentation and precedent setting court decisions, but the administrator/trustee has to determine what reliance it places on the advice and what policy will be followed for handling funding excess under the objectives of the plan.

2. Needs of the Employers and Members

The administrator, acting in its role as a pension plan trustee, should participate in discussions whether the continuation of the plan under its current form makes sense. Will the plan design continue to serve the employees and the employer's human resource policies? The preferences of plan beneficiaries, the demographic and economic circumstances of the plan and the existence of other methods of securing retirement income may mean that the status quo of the plan is no longer the best alternative. Even if the plan objectives, plan design and the ultimate decision to amend or terminate the plan

are determined by the employer in its own self interests or by the union through negotiated agreement(s), the plan administrator retains a role. The plan administrator/trustee must make sure that its fiduciary responsibilities have been fulfilled through judicious advice and recommendations. In these deliberations the administrator/trustee should be scrupulous in considering the interests of the plan beneficiaries.

3. Financial Stability and Funding

In its trustee capacity, the administrator should assess the vulnerability of the plan to changes in economic and demographic conditions, and how these may influence the willingness and ability of the employer or industry to contribute. For example, the administrator/trustee should consider changes in bond and stock markets, interest rates, and the effects of inflation. An investment policy that was suitable for the plan when it was young and the employer was expanding may not be suitable once growth halts and the workforce starts to age. The practice of bringing the salary base for career average plans up to date by creating unfunded liabilities may have been easily sustainable by a young plan. This practice may become untenable, either because of the plan membership profile, or changed economic climate. Strategic financial planning would, for example, consider prefunding benefit improvements or at least shortening the amortization period to reduce the possibility of having to forfeit benefits in the future.

A defined contribution plan administrator will have to determine, among other matters:

- who will make the investment decisions;
- whether the members invest the total account, or just their own contributions;
- number and diversity of investment choices required to materially affect the potential returns and degree of risk;
- diligence in the selection of investment choices, should member representatives participate in the selection;
- standards for monitoring the performance of the investments;
- how frequently the members can change their investment choices;
- how to best communicate to the members the risks of this type of pension savings, especially during times of low investment returns and high annuity costs;
- what information or investment counselling the administrator should provide to the members;
- how to educate the members on making good investment decisions; and
- how to handle expenses charged to the fund.

4. Plan Operation

Effective supervision is possible only if management has clear instructions from the trustee and the managers fully understand their roles in terms of expected results and policies to be followed. To oversee the operation of the plan, the administrator/trustee needs sufficient and timely information about financial and administrative performance. Information on which the trustee relies is prepared by managers and advisors, and the administrator should consider having it verified by independent auditors.

The administrator, in the role of a trustee, should perform the following tasks as it supervises the plan operations:

- assess periodically if objectives of the plan are being met;
- ensure absence of (potential) conflicts of interest;
- ensure controls are in place and that they are audited regularly;
- set expectations with management and evaluate performance, through effective delegation where required;
- consider the necessary resources required to pursue the objectives and strategies ;
- review correspondence relating to the plan to assess specific administration matters; and
- maintain appropriate records of key meetings and decisions affecting the plan, and confirm follow-up action.

5. Delegating and Outsourcing

The challenges facing the administrator of a pension plan require the use of a broad range of skills and knowledge. The administrator/trustee may acquire skills and knowledge by employing qualified staff (plan managers) and through outsourcing. Selection of staff and/or agents and monitoring of the delegated work are the responsibility of the party who commissions the tasks. In addition, the administrator/trustee must assess the quality of the services and decide whether to follow the advice it receives. The administrator, as a trustee or a manager, must have a reasonable understanding of the issues to assess the credibility of the advisors and the rationale behind their recommendations. More details on the due diligence process in obtaining third party services are outlined below in Appendix III - Outsourcing.

6. Controlling Expenses

The standards of prudent care demand that the administrator, in its capacity as trustee, establish clear written rules and guidelines regarding the use of the plan assets for purposes other than benefit payments. In particular, the rules should detail what issues the administrator will have to consider before authorizing a payment from the pension fund and guidelines on what are appropriate expenses of the pension plan. In addition to administration expenses, investment expenses and purchase of services should be addressed. If, for example, the plan wishes to update the knowledge of its administrator and staff by sending them to conferences, documented guidelines could specify for instance what conferences are considered appropriate, what is to be gained from the attendance, what reporting of findings is expected of the attendees, who should attend, what accounting of expenses is expected, and what are reasonable expenses.

If fees are charged to the plan, the procedures should include for instance:

- a requirement for written service contracts and expense sharing agreements for all services including legal, accounting and actuarial services, staff salaries, computer systems, premises, etc.;
- a requirement for proof that purchases are based on competitive determinants;
- billing and receipt requirements;
- clear identification of positions and persons who are authorized to approve fees and expenses from the plan; and
- how the administrator will monitor that the rules are being followed, e.g., through random audits.

7. Information to Members

Laws and regulations cannot possibly provide all of the detail required to guide the administrator in meeting the principles of governance for disclosure. OSFI has issued a separate guideline on disclosure of information to members that summarizes the minimum requirements and makes recommendations for certain additional disclosure. The administrator should also be mindful of its fiduciary responsibilities and the standard of care required of a trustee when considering what to disclose, the manner and form of disclosure, and whom to inform. Regardless of the medium or the recipient, the information should be clear, accurate, complete, and timely.

In addition, the administrator should ensure that member inquiries and complaints are managed by skilled staff and effective conflict resolution mechanisms are in place to

handle disagreements. The administrator would also do well to consider the role of member and/or retiree committees as advisory and information-dissemination bodies.

8. Record Keeping

Record keeping applies to both the administrator's records of meetings and decisions and to the administration systems used internally and externally. Effective record keeping involves the following considerations:

- organize, refresh and transcribe records to modern format;
- determine the length of time records should be kept to validate benefit calculations, to compute credit splitting, to establish legal requirements such as funding obligations or surplus entitlements; and
- audit records to ensure accuracy and respond quickly to any concerns of the auditor and actuary about the quality of the plan's records.

9. Plan Documentation

In addition to describing the plan's objectives, the following should be considered for documentation, as appropriate in the plan circumstances:

- include requirements of all applicable legislation;
- define the powers to amend the plan;
- describe all pension promises;
- describe how those benefit promises are related to plan funding;
- specify required contributions, and state when the employer must contribute and when it can abstain;
- ensure that the plan reflects negotiated agreements;
- specify authority to collect contributions and data;
- address the rights to and use of excess assets in an ongoing plan;
- describe the allocation of surplus on plan termination;
- address compensation, disbursements and expenses from the plan; and
- specify periodic review of plan provisions and documentation.

For instance, a plan may pay subsidised early retirement benefits automatically, despite wording that calls for administrator consent. Practice and communications to members of benefits not specified in the plan text may lead to entitlements that an actuary who relies on the plan text will not recognize when calculating funding requirements. Accurate and up-to-date documentation will help to prevent misunderstandings and funding surprises.

10. Performance Expectations and Review

The administrator (plan sponsor in its fiduciary capacity) should expect and look for an acceptable level of professional conduct and advice from the plan trustees, managers and advisors and, if the conduct is not appropriate, the administrator should consider mechanisms and follow-up actions, including use of professional disciplinary procedures and legal recourse if necessary.

In reviewing the plan trustee's and managers' mandate and performance, the administrator (measuring its own and delegated entities' effectiveness) should take the following actions, if appropriate:

- ensure the trustee is sufficiently independent to supervise plan management;
- ensure the administrator, in both the trustee and manager capacities, continues to be educated about developments in pension plan governance and other sound business and financial practices;
- ensure the administrator is qualified in understanding financial markets, risk management, legislation and other general pension issues, as well as plan specific matters such as the plan promises, current status of the plan, its major policies and the operating processes of the plan administration;
- refresh the list of suitable new candidates to serve in the role of a trustee;
- set annual objectives for the management of the plan and review progress towards the objectives on regular basis;
- ensure no one in the plan administration is working contrary to the plan objectives, and give clear instructions to those who administer the plan, the instructions should not leave undue discretion;
- ensure the information used in the administration of the plan, the formulation of policy and in strategic planning is reliable and untainted by biases; and
- ensure the administrator has responded to the observations and recommendations of the last governance audit, and if no audit has been performed, determine if such an audit should take place.

For example, in making investment decisions the administrator should not be open to arm-twisting or inducements for recovery capital to aid declining industries or failing ventures. If the administrator has given the trustees or the managers discretionary latitude in certain investment decisions, those decisions must serve the objectives of the plan and follow a prudent decision-making process. Should the administrator discover that it has failed in providing such a framework, corrective measures should be taken immediately and mistakes dealt with.

Appendix III — Outsourcing

In order to meet the test of due diligence in obtaining services, the administrator should, as a minimum, establish that:

- the provider is qualified;
- the provider's interests do not conflict with those of the pension plan;
- the provider has sufficient financial resources for a stable relationship;
- the provider will give the service adequate performance and that it has measures in place to assess performance;
- the arrangement will provide good value for money; and
- the provider has the necessary procedures and controls to ensure that rules of confidentiality will be respected, that accurate records will be maintained, and that plan assets will be safe.

The contract with the service provider should require:

- the provider to conform to all plan policies;
- the provider to guarantee the absence of conflicts of interest, qualifications of the people performing the work, confidentiality, and performance;
- the provider to maintain records;
- the provider to disclose to the plan administrator any direct or indirect compensation obtained by the service provider and related parties for work in connection with the pension plan from other sources, e.g., commissions from insurance companies on annuity purchases or investments; and
- the provider to agree to conditions for the continuation or termination of the contract, including an agreement to co-operate with its successor, other service providers and regulators.

The administrator should also:

- inform any professional it engages that the administrator's policy is to report unethical behaviour to relevant professional associations and/or regulatory bodies;
- reassess periodically whether the arrangement continues to provide good service and good value for money; and
- terminate the contract when there is credible evidence that it is not providing the service and value for money.

To accomplish some of the above, the administrator may consider an audit of the service provider, performed to the standards of Section 5900 of the Handbook of the Canadian Institute of Chartered Accountants, either before, during or at end of the contract. This audit can be performed by internal or external auditor of the purchaser or the provider, as circumstances permit. Further guidance on outsourcing can be found in OSFI Policy Statement #1997-02, August 1, 1997, Outsourcing of Business Functions by FRFIs.

Appendix IV — Special Governance Issues When Employer is the Administrator

The *PBSA* states that the administrator acts as a trustee for the employer, members and other beneficiaries. However, if an employer acting as administrator finds itself in a conflict-of-interest situation, where the employer role demands certain considerations and the plan trustee role requires opposing actions, it must act in the interests of plan members. This has implications for establishing investment policy, and for certain procedures in handling expenses and granting benefits.

1. Investment and Funding Policies

Investment policies that provide high security for accrued benefits may have lower return expectations than aggressive investments that aim for high returns with less concern for benefit security. The employer will benefit from aggressive investments if they lead to lower employer costs in a defined benefit plan. The members' benefit security may benefit from an investment policy with conservative return-rate expectations, for instance, in cases where the administrator attempts to immunize the plan's solvency ratio from interest rate changes or inflation. At the same time, there may be a tradeoff between benefit security and benefit amounts. The administrator must strike a fair balance between risk and reward, keeping in mind its fiduciary responsibility. (For further discussion, refer to OSFI's pension plan investment guideline.)

2. Expenses

Many employers feel that they pay the residual cost of the pension plan after employee contributions, and therefore it does not matter much whether they pay expenses directly or from the pension fund. However, payment of expenses from the fund that are not consistent with the purpose of the plan may be an illegal use of pension funds. Plan documentation should give clear direction to the administrator on permissible disbursements from the fund. Certainly, expenses incurred by the employer in pursuit of its own interests, and not as a plan fiduciary, must not be paid by the pension fund.

3. Benefits Policy

Many employers see their pension plans as a tool for handling human resources issues. Employers may serve their own interests by giving special benefits to certain groups during downsizing or to attract special talent. A trustee need not be even-handed in such cases if the terms of the plan instruct the trustee to favour certain beneficiaries in certain

circumstances. However, while acting as administrator, the employer must conform to the terms of the plan and apply discretion with an even hand. Variations in treatment must not be arbitrary; rather they should reflect an application of documented policy to the circumstances of the cases.

Appendix V — Special Governance Issues When Board of Trustees is the Administrator

Negotiated pension plans pose special governance concerns because they are often important issues in collective bargaining.

1. Composition and Orientation of the Board

Boards of trustees should pay special attention to educating the board members and planning for an orderly succession. Ideally, the board should have representation of the various groups with an interest in the plan: employers, active members, retirees and other former members. If a group is not explicitly represented, the board should consider other ways to obtain its views, such as special notifications with opportunity to comment.

2. Investments

The trustees should ensure that they are managing the funds to achieve the plan objectives. Considerations of solidarity with other unions or locals or promotion of employment in an industry have to be dealt with by trustees in a manner that is consistent with the plan's investment policies and their own fiduciary responsibilities relating to the pension plan. The fiduciary obligations of the board should set the standard against which all investment decisions are measured. (For further discussion, refer to OSFI's pension plan investment guideline.)

3. Obtaining Independent Objective Advice

The adversarial nature of collective bargaining connected to the operation of the plan must not hinder trustees from acting on independent and objective advice. For example, the union may have reasons to exaggerate or minimize wage increase forecasts, or the employer may wish to exaggerate or minimize the possibility of layoffs. In setting benefits, it is difficult to evaluate projections of future contributions required to finance the benefits when these contributions are yet to be negotiated. The difficulty obtaining independent objective advice should alert trustees to the need for special caution, especially when granting benefit increases.

4. Benefit Increases

Preserving equity among generations of members is a rational concern, especially for trustees of a negotiated contribution/defined benefit plan, and suggests that trustees should ensure that each generation pay for the benefits it receives, and not rely on

contributions of the members who follow. To do this and simultaneously safeguard promised benefits, trustees should strive to avoid unfunded liabilities and to finance future cost of living improvements in advance. For example, retroactive benefit improvements, such as inflation protection, could be phased in gradually as funds become available. The board may find actuarial scenario testing, with a realistic range of assumptions, a helpful tool when considering benefit adjustments.

5. Compensation of Trustees

The board of trustees should establish a policy for compensating its members for their time and earnings lost while they work as trustees. In doing so, they should seek the opinion of independent advisors with expertise in compensation. The policy should be reviewed by legal counsel to ensure that it is consistent with trust law and the specifics of the plan. The board should consider disclosing to members the actual compensation and any honoraria or repayment of expenses to trustees as well as the plan's policy in this regard.

6. Collection of Data and Contributions

Trustees should consider refusing participation to a group of employees if their collective agreement does not provide the plan with adequate authority to collect contributions and data. They should establish a delinquency control program including procedures for the collection of unremitted contributions. Timely information is especially important for negotiated contribution plans, because occasions to influence negotiations for contributions are infrequent. The trustees should be comfortable with the systems in place for collecting data and should establish remedies to deal with noncompliance. For instance, at the recommendation of the trustees, the union and the employers should include in their collective agreements the employer's duty to provide data, and the plan administrator's right to verify this information or collect it at the employer's expense should the employer fail to provide it on time.