

## **CAPSA PENSION PLAN GOVERNANCE GUIDELINES FREQUENTLY ASKED QUESTIONS**

The following frequently asked questions (FAQ) and responses have been developed by the CAPSA Pension Plan Governance Committee with the assistance of the CAPSA Pension Plan Governance Industry Task Force. The purpose of the FAQ is to provide pension plan administrators with general guidance, additional clarification and examples related to CAPSA Guideline No. 4, Pension Plan Governance Guidelines and Self-Assessment Questionnaire published on October 25, 2004. The FAQ will be updated periodically to incorporate frequently asked questions received from stakeholders related to the Governance Guidelines. Questions related to the Governance Guidelines should be referred to the CAPSA Secretariat: via post: 5160 Yonge Street, 17<sup>th</sup> Floor, P.O. Box 85, North York ON, M2N6L9, via email: [capsa-acor@fscs.gov.on.ca](mailto:capsa-acor@fscs.gov.on.ca), via phone: 416-226-7773, via fax: 416-590-7070.

### **PRINCIPLE 1: FIDUCIARY RESPONSIBILITIES**

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

#### **QUESTION 1.1**

As the plan administrator of my company's pension plan, what are some examples of my fiduciary responsibilities?

#### **ANSWER:**

Your fiduciary responsibilities include:

- Acting in the best interests of all plan members and other beneficiaries
- Ensuring that the members and other beneficiaries of the plan receive the benefits and all the information and documentation to which they are entitled
- Being consistent and even-handed in the treatment of all members and other beneficiaries of the plan

## **QUESTION 1.2**

I am an employer. I am also legally the plan administrator of my company's pension plan. What are some examples of my responsibilities regarding the pension plan in my role as the employer and in my role as the plan administrator?

## **ANSWER:**

As the employer, you would normally:

- Determine the provisions of the pension plan
- Make any necessary amendments to the plan provisions
- Make contributions to the pension plan

On the other hand, as the plan administrator, you would:

- Ensure that the plan is administered in accordance with its provisions and in compliance with legislative requirements
- File any amendments made to the plan and any prescribed documents with the appropriate regulatory authorities
- Ensure contributions required to be made to the pension plan are paid on a timely basis

## **PRINCIPLE 2: GOVERNANCE OBJECTIVES**

The plan administrator should establish governance objectives for the oversight, management, and administration of the plan.

### **QUESTION 2.1**

What are governance objectives?

### **ANSWER:**

Governance objectives provide the framework and standards for the oversight, management and administration of the pension plan. The following are examples of governance objectives:

- Set service standards and periodically monitor service providers to ensure that the service standards are being achieved
- Maintain accurate and complete records; document all key decisions
- Pay benefits accurately and on a timely basis

## **PRINCIPLE 3: ROLES AND RESPONSIBILITIES**

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

### **QUESTION 3.1**

Who are participants in the governance process? What are their roles and responsibilities?

### **ANSWER:**

The participants in the governance process, and their roles and responsibilities, may vary depending on the type of pension plan and how it is administered. The following are examples of participants in the governance process for a typical defined benefit, defined contribution and multi-employer pension plan.

#### **A) DEFINED BENEFIT PLAN**

For a defined benefit plan established by a mid-sized manufacturing company, the participants and their roles and responsibilities may include:

##### **1. The Company's Board of Directors**

Role: Plan administrator

- Establish the governance structure for the administration of the pension plan
- Allocate roles and responsibilities to various participants in the administration of the plan

##### **2. Investment Committee**

Role: Oversee the investment of the assets of the pension plan

- Establish the investment policy for the investment of the assets
- Hire investment managers and monitor their performance
- Report to the Board of Directors on the investment of the plan assets

### **3. Vice President, Finance and Administration**

Role: Day-to-day responsibilities for the administration of the pension plan

- Make required filings with regulatory authorities
- Make required contributions to the pension plan
- Pay members' benefits accurately and in a timely manner
- Provide required benefit statements to members
- Respond to member inquiries

### **4. Agents/Service Providers**

Role: Provide services or advice required in the administration of the plan (pension legislation may limit the parties who can provide certain services or advice)

- Prepare periodic actuarial valuations of the plan
- Calculate benefit entitlements of members and other beneficiaries
- Prepare benefit statements to be provided to members
- Draft amendments to be made to the plan
- Hold and/or invest the plan assets

## **B) DEFINED CONTRIBUTION PLAN**

For a defined contribution pension plan established by a small service station, the participants and their roles and responsibilities may include:

### **1. Owner/Operator**

Role: Plan administrator

- Determine the provisions of the plan, such as how much the employer and the members are required to contribute to the plan
- Hire the financial institution
- Review the performance of the financial institution

## **2. Office Manager**

Role: Day-to-day responsibilities for the administration of the pension plan

- Make the employer's required contributions to the plan
- Deduct and remit the members' required contributions to the financial institution
- Interact with the financial institution and members
- Complete and submit the annual information return required to be filed with the regulatory authorities

## **3. Financial Institution**

Role: Provide services or advice required in the administration of the plan

- Receive employer and member contributions
- Hold and/or invest the plan assets
- Maintain plan records
- Pay members' benefits accurately and in a timely manner
- Prepare and provide required statements to members
- Provide information to the Office Manager for completing the annual information return
- Respond to members' inquiries
- Provide investment information and decision-making tools to members of plans in which members make investment decisions

## **C) MULTI-EMPLOYER PENSION PLAN**

For a multi-employer pension plan established by a trade union representing the members of a particular trade working for a variety of employers, the participants and their roles and responsibilities may include:

### **1. Pension Plan Board of Trustees**

Role: Plan administrator

- Ensure that members of the Board of Trustees receive training and ongoing education to assist them in carrying out their governance responsibilities
- Hire staff and service providers to carry out aspects of the administration of the plan

- Review performance of plan staff and service providers against established standards
- Monitor the funding of the plan
- Take action where employers are delinquent in making required contributions to ensure contributions are made
- Establish the investment policy for the investment of plan assets
- Monitor the investment of the assets of the plan

## **2. Plan Manager**

Role: Day-to-day responsibilities for the administration of the pension plan

- Perform day-to-day functions related to the administration of the plan
- Make required filings with regulatory authorities
- Monitor required contributions paid by employers and where employers are delinquent in making required contributions, bring them to the attention of the Board of Trustees for action
- Pay members' benefits accurately and in a timely manner
- Respond to members' inquiries

## **3. Agents/Service Providers**

Role: Provide services or advice required in the administration of the plan (pension legislation may limit the parties who can provide certain services or advice)

- Invest the assets of the plan in accordance with the investment policy established by the Board of Trustees and in compliance with legal requirements
- Periodically perform actuarial valuations of the plan and report the results to the Board of Trustees
- Calculate benefit entitlements of members and other beneficiaries
- Prepare and provide required statements to members

## **QUESTION 3.2**

Would the participants in the governance process and their roles and responsibilities also vary depending on the legislative requirements applicable to the plan?

### **ANSWER:**

Yes, for example:

- Where the pension legislation requires that the plan administrator must be a pension committee, the pension committee is legally responsible for performing all of the functions related to the administration of the pension plan.
- Where the pension legislation permits and a defined contribution pension plan is established through a simplified pension plan offered by a service provider, such as an insurance or mutual fund company, the service provider is the legal plan administrator and is responsible for performing all of the functions related to the administration of the pension plan



## PRINCIPLE 4: PERFORMANCE MEASURES

The plan administrator should provide for the establishment of performance measures and for monitoring the performance of participants who have decision-making authority in the governance process.

### QUESTION 4.1

How might the performance of participants in the governance process who have decision-making authority be measured?

### ANSWER:

The following are examples of participants in the governance process who have decision-making authority and how their performance might be measured:

DECISION MAKERS	PERFORMANCE MEASURES
Board of Trustees	<ul style="list-style-type: none"> <li>▪ Have standards of service for service providers been established?</li> <li>▪ Are service providers periodically monitored against standards and actions taken where standards are not met?</li> <li>▪ Are the plan rules applied in an evenhanded manner?</li> <li>▪ Is member satisfaction monitored periodically?</li> <li>▪ Does the plan comply with legislative requirements?</li> </ul>
Investment Committee	<ul style="list-style-type: none"> <li>▪ Has the investment policy for the plan been regularly reviewed?</li> <li>▪ Has the investment policy for the plan been followed?</li> <li>▪ Is investment performance monitored relative to benchmarks and appropriate action taken?</li> </ul>
Vice President, Finance and Administration	<ul style="list-style-type: none"> <li>▪ Are contributions paid on time?</li> <li>▪ Are service providers monitored and action taken where necessary?</li> <li>▪ Are members' benefits paid in an accurate and timely manner?</li> <li>▪ Are regulatory requirements for the operation of the plan being met?</li> </ul>

## PRINCIPLE 7: RISK MANAGEMENT

The plan administrator should provide for the establishment of an internal control framework, commensurate with the plan’s circumstance, which addresses the pension plan’s risks.

### QUESTION 7.1

What are a pension plan’s risks? What controls can be put in place for addressing the risks?

### ANSWER:

Examples of a pension plan’s risks and controls that could be put in place to address the risks may include:

RISKS	CONTROLS
<p>In a defined benefit plan, the pension benefits promised to a member may not be delivered.</p>	<ul style="list-style-type: none"> <li>▪ Regular review of the funded status of the plan and necessary action</li> <li>▪ Regular review of the investment performance of the plan and necessary action</li> <li>▪ Regular review of the plan’s investment strategy and necessary action</li> </ul>
<p>In a defined contribution plan, members’ expectations of what the plan will deliver may not reflect the plan provisions</p>	<ul style="list-style-type: none"> <li>▪ Frequent, clear, effective information and tools to assist members in understanding the plan and what to expect from it</li> <li>▪ Guidelines for responding to member inquiries</li> <li>▪ Regular review of communication materials and necessary action</li> <li>▪ Ongoing member feedback and necessary action</li> </ul>