

Pension Plan Governance and Assessment

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Panel

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Introduction and overview

- The road to governance
- Commentary from our regulator
- Assessment of pension plans
- Challenges: assessing trustee plans
- Challenges: assessing single employer plans
- Discussion and questions

The Road to Governance

The road to governance

- What is pension plan “governance”?
 - “the structure and processes for overseeing, managing and administering a pension plan to ensure the fiduciary and other obligations of the plan are met”*

* Canadian Association of Pension Supervisory Authorities, Guideline No. 4

The road to governance

- Even before the increased attention on governance
 - Each plan would have had its own governance structure
 - Administrators would have had a particular process by which decisions were made and obligations were met
 - There were legislative and common law requirements that related to plan governance
- However, there was little discussion of options and guidance, so governance could be by default

The road to governance

- History of the increased attention in plan governance
 - Association of Canadian Pension Management (ACPM) publishes on pension plan governance (1997)
 - ACPM, Pension Investment Association of Canada and OSFI joint task force on governance and self-assessment (1999)
 - Canadian Association of Pension Supervisory Authorities (CAPSA) issues Guideline No. 4 “Pension Plan Governance Guidelines and Self-Assessment Questionnaire” (2004)

The road to governance

- When pension plans fail to deliver on their pension promise, poor governance is often the root cause.
 - (JEPPS Report: Pension Reform in Alberta and British Columbia)
- Success without governance is often called “chance” and unquestionably, chance is not a successful business model.
 - (ProteusPerformance.com)

Pension Benefits Standards Act (PBSA)

Section 42

(1) The Administrator of a pension plan must ensure that a written governance policy that meets the prescribed criteria is established in respect of the structures and processes for overseeing, managing and administering the plan

(2) The administrator of a pension plan must ensure that the plan is administered in accordance with the governance policy established under subsection (1)

PBSA requirements and CAPSA Guideline #4

Principle	CAPSA Guideline #4	PBSR Sect 50	Sect
#2	Governance Framework: establish and document a governance framework for the administration of the plan.	Sets out the structures and processes for overseeing, managing and administering the plan; explains what those structures and processes are intended to achieve	(a)
#3	Roles and Responsibilities: clearly describe and document the roles, responsibilities and accountabilities of all participants in the pension plan governance process.	Identifies all participants who have authority to make decisions, and describes the roles, responsibilities and accountabilities of those participants.	(c)

PBSA requirements and CAPSA Guideline #4

Principle	CAPSA Guideline #4	PBSR Sect 50	Sect
#4	Performance Monitoring: establish and document performance measures to monitor the performance of participants in the governance and administration of then plan.	sets performance measures and establishes a process for monitoring, against those performance measures, the performance of each of the participants identified in paragraph (c);	(d)
#7	Risk Management: The plan administrator should establish and document a framework and ongoing processes, to identify and manage the plans risks.	Identifies material risks that apply to the plan and establishes internal controls to manage those risks	(h)

Good governance

- General consensus is that good governance
 - promotes timely and cost-effective delivery of benefits
 - promotes administration in the members' best interests
 - requires appropriate control mechanisms that encourage good decision making and regular review and assessment
 - does not guarantee but contributes to plan success
 - may reduce potential liability
 - demands accountability for decisions made which leads to better plan administration*

* OSFI, Guideline for Governance of Federally Regulated Pension Plans

Commentary from our regulator

Why the focus on governance and assessment?

The legal consequences of poor governance most often play themselves out in courts, which begs the question whether governance provisions should be adopted in the legislation.

(JEPPS Report: Pension Reform in Alberta and British Columbia)

New Pension Legislation and Governance

- Formalised role of governance in effective plan administration
- Establishes framework for Separation of duties & responsibilities
- Identification of material risk
- Effective Controls & Oversight
- Establishes code of conduct.

Commentary from our regulator

- Assessment process is part of good governance but also now a statutory obligation to assess the pension plan

PBSA section 41

(1) The administrator of a pension plan must ... assess the administration of the plan ...

(2) An administrator must prepare the assessment in writing and must retain that assessment and make it available to the superintendent on the superintendent's request

Regulator's Commentary - Assessment

- Format: Not Standardized
- Demonstrated Evidence
- Principles
- Objective

Regulator's Commentary

- Objective of Assessment
- Measures: Activity
- Results: outcome of activity
- Conclusion

Risk-Based Regulation

What is Risk-Based regulation:

- Systematized decision making frameworks and procedures to prioritize regulatory activities and deploy resources, ... based on the assessment of the risks that regulated entities pose to the **regulators objectives**

(OECD: source)

Common Objectives

- Regulator: Work within the legislative framework to create an environment that will increase the **probability** that pension benefits promised will be paid.
- Administrator: Provide the **opportunity** and **basis** to ensure employees receive their pension benefits

FICOM Risk Focus – 2017

- Funding Risk
- Investment Risk
- **Governance Risk**

FICOM Risk Focus – 2017

- Trustee/Administrator Self-Assessment
- Focus: Controls & Oversight
- On-Site Pension Examination

Assessment of Pension Plans

When and how to assess

When assess the plan?

- Regulations provide that assessment must be done
 - For the first time, within one year after the end of the plan’s second fiscal year
 - After that, within one year after the end of every third fiscal year of the plan
- FICOM Bulletin 16-005
 - If plan fiscal year is January – December, “the first assessment must be performed with an effective date no later than December 31, 2016 and the written assessment completed by December 31, 2017”

When assess the plan?

- What about “off cycle” assessments?
 - Not required by legislation to assess more frequently than every 3 fiscal years
 - However, may be good practice to conduct more frequent assessments
 - Identify issues early
 - Correct issues ahead of formal assessment

How assess the plan?

- Under section 41 the assessment must include the:
 - Plan's compliance with PBSA and Regulations
 - Plan's governance
 - Funding of the plan
 - Investment of the fund
 - Performance of the trustees (if any)
 - Performance of administrative staff and agents of the administrator

How assess the plan?

- How should an administrator perform the assessment?
 - No particular approach required by the PBSA or Regulations
 - Administrator has discretion to determine how to conduct assessment
 - ... but must prepare and retain a written assessment covering the section 41 topics

How assess the plan

Must:

1. Determine what questions to ask in respect of each required element to the assessment
2. Determine who will answer the questions
3. Gather the information to enable the assessment to be performed
4. Assess the answers
5. Produce the written assessment

How assess the plan – what do you ask?

Did the plan
comply with PBSA
and Regulations?

How assess the plan – what do you ask?

Did the plan
comply with PBSA
and Regulations?

Financial
statements

How assess the plan – what do you ask?

Pension
divisions

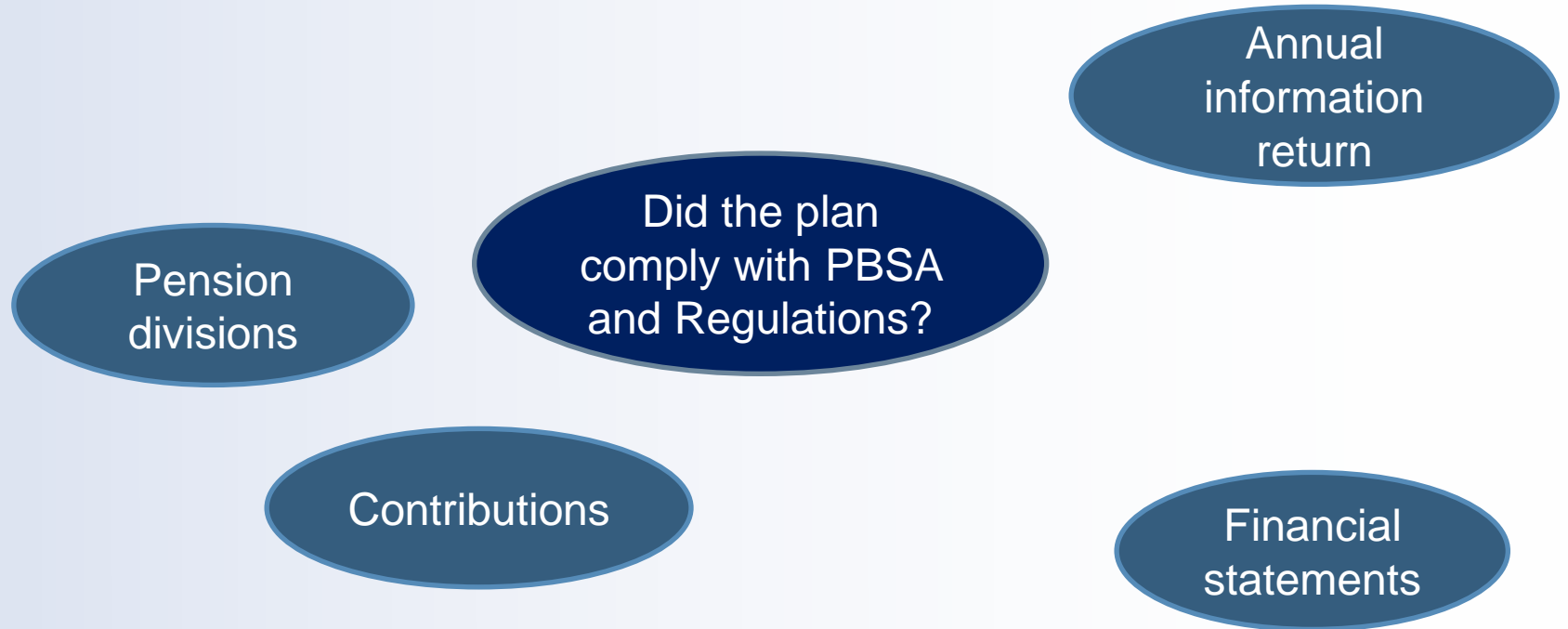
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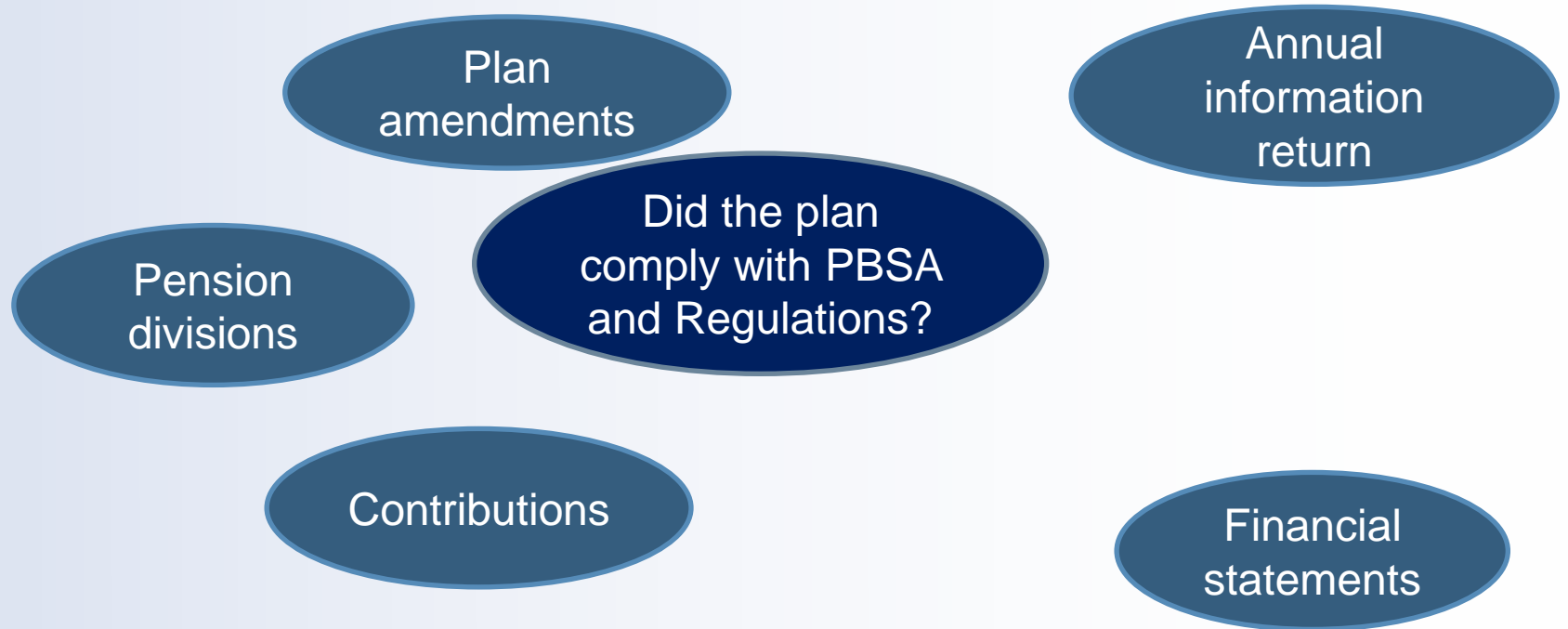
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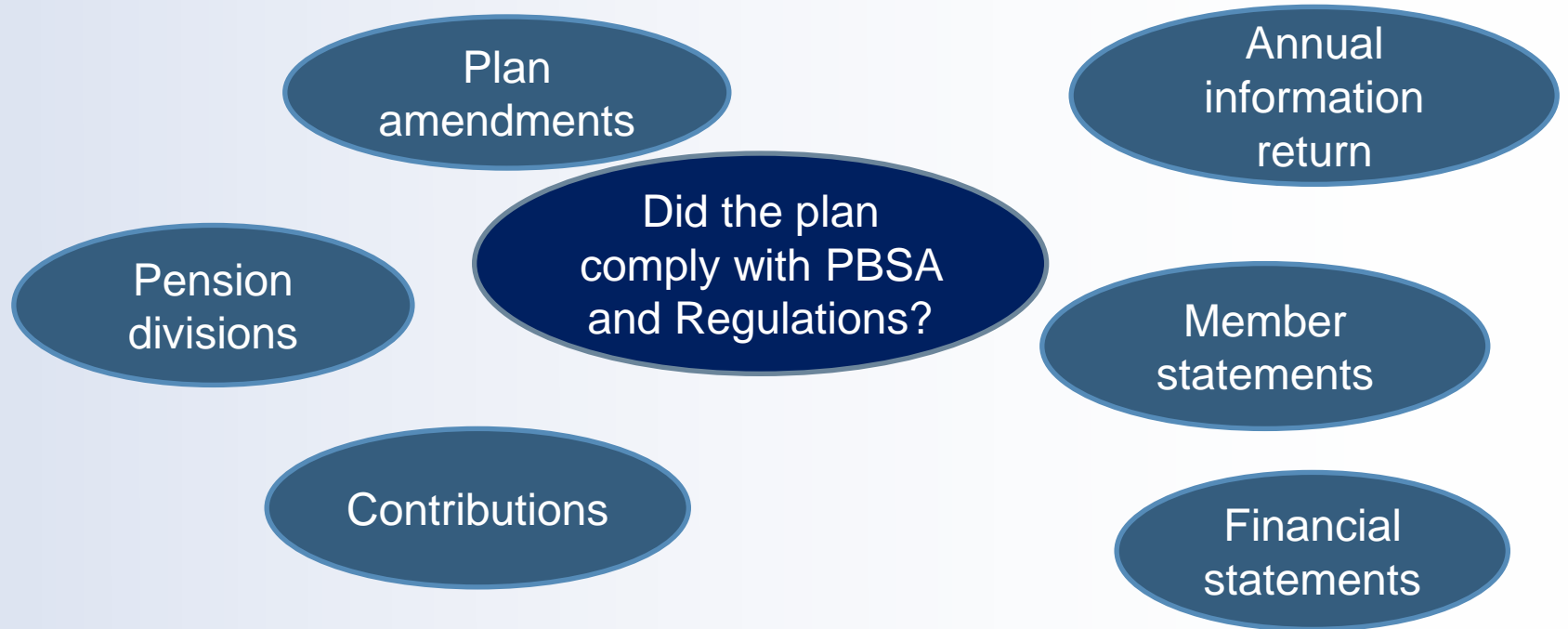
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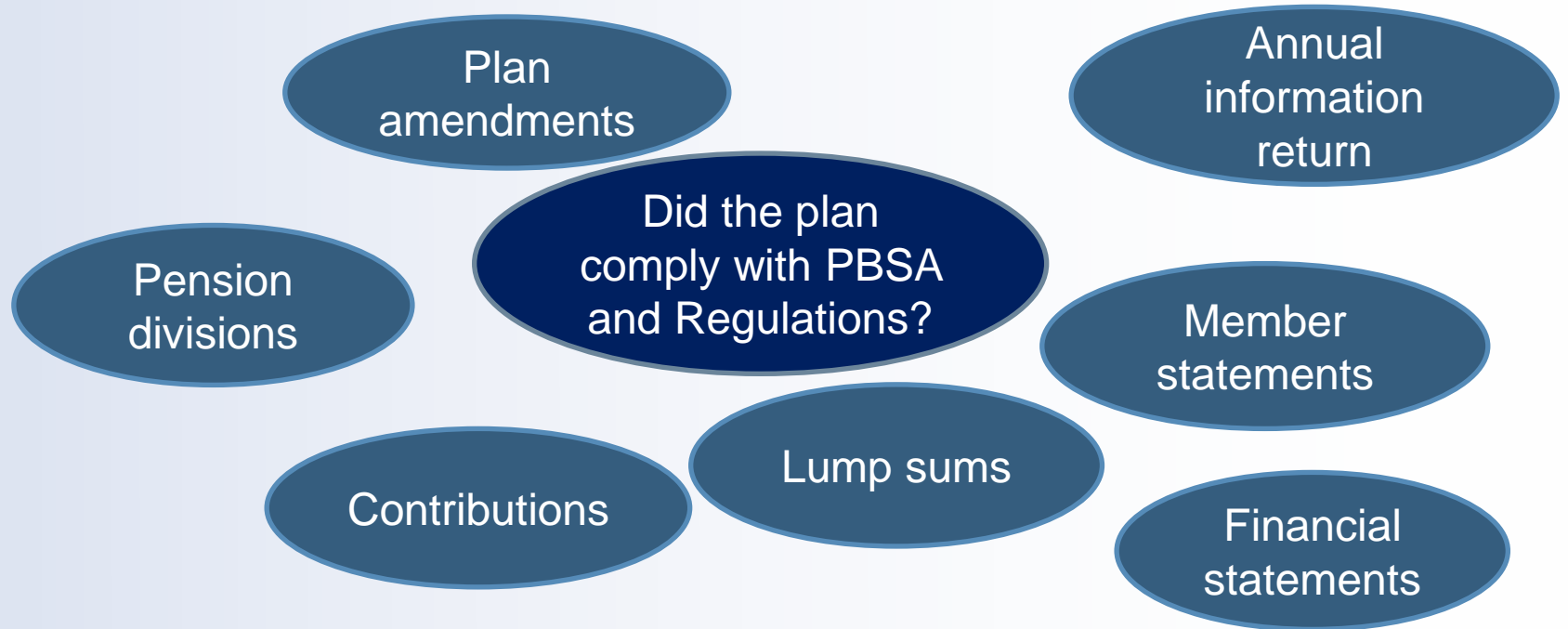
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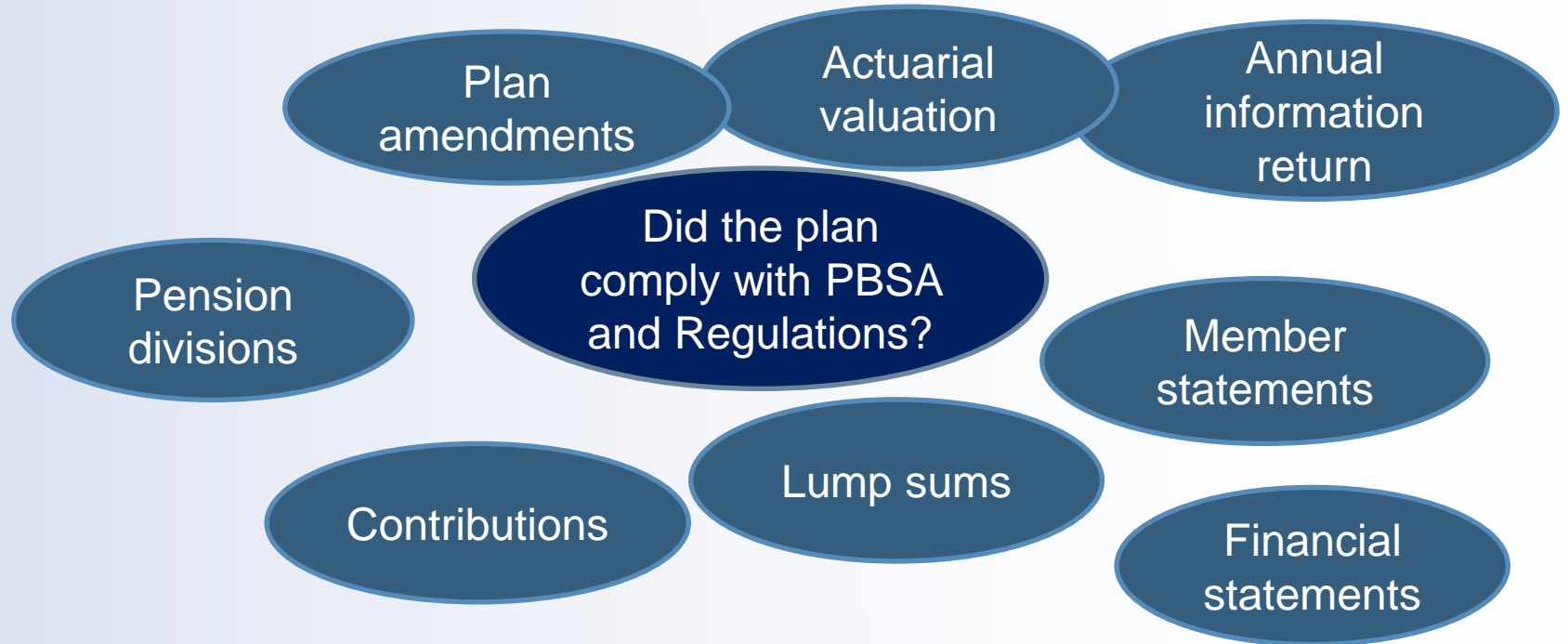
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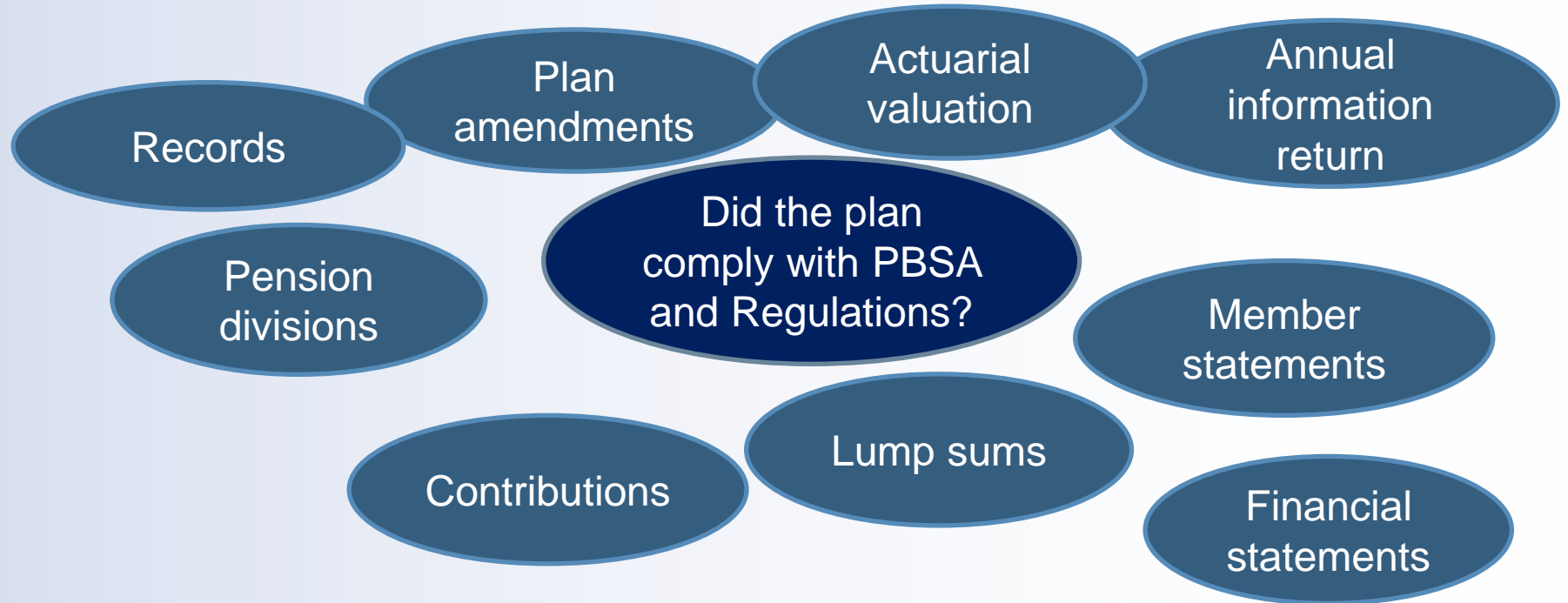
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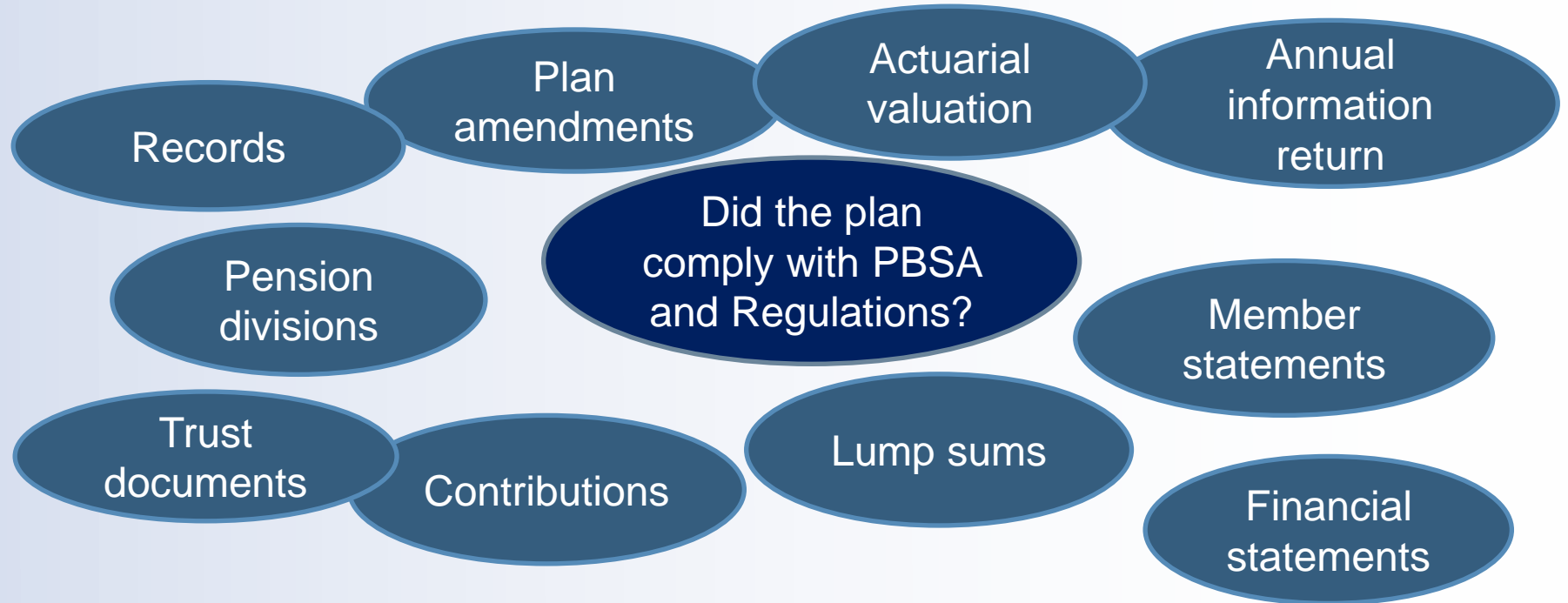
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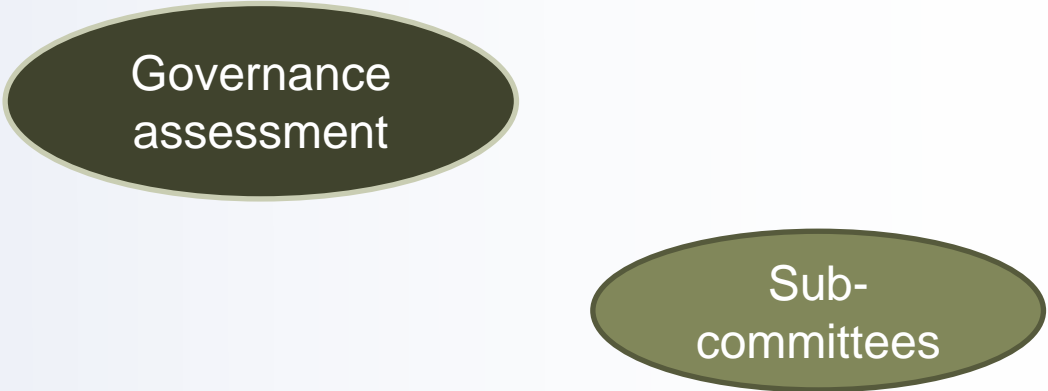


How to assess the plan – what do you ask?



Governance
assessment

How to assess the plan – what do you ask?



Governance
assessment

Sub-
committees

How to assess the plan – what do you ask?

Governance
Policy

Governance
assessment

Sub-
committees

How to assess the plan – what do you ask?



How to assess the plan – what do you ask?



How to assess the plan – what do you ask?



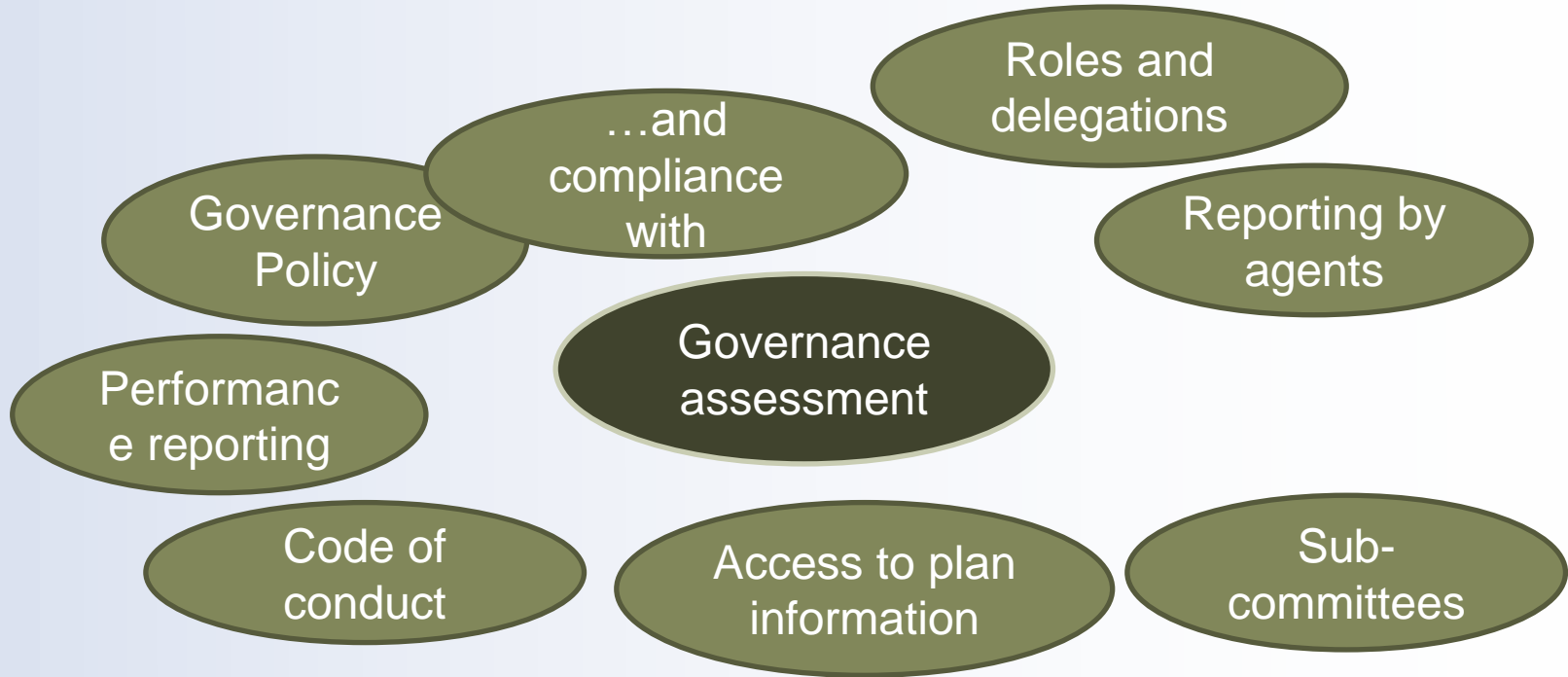
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How to assess the plan – what do you ask?



How to assess the plan – what do you ask?



How to assess the plan – what do you ask?



How assess the plan?

No particular form for the questions:

CAPSA Guideline #4 regarding performance measures:

4. Performance measures	
a)	Have you established clear measures for assessing the performance of all participants in the governance process who have decision-making authority? Yes <input type="checkbox"/> No <input type="checkbox"/>
b)	Do you have a regular performance monitoring, review and remedial process for all participants in the governance process who have decision-making authority? Yes <input type="checkbox"/> No <input type="checkbox"/>

How assess the plan?

... for knowledge and skill

5. Knowledge and skills
a) Have you established an ongoing process to identify the knowledge and skills needed for the effective governance of the pension plan? Yes <input type="checkbox"/> No <input type="checkbox"/>
b) Do you have a process to fill gaps in knowledge and skills? Yes <input type="checkbox"/> No <input type="checkbox"/>

How assess the plan?

... for roles and responsibilities

3. Roles and responsibilities

a) Have you identified your roles and responsibilities, including any necessary delegation, for the effective governance of the pension plan?

Yes No

b) Have you clearly documented expectations for yourself and each of your delegates?

Yes No

How assess the plan?

- Gather and assess the answers
- Produce the written assessment
 - Neither PBSA nor Regulations require a particular format
 - Level of detail expected?
 - Format expected?
 - Not intended to be accessible by plan members
 - What about if Freedom of Information requests made to the Superintendent's office?

Trusteed plans – assessment issues

- Issues unique to trustee plans
 - A group of individuals acting collectively – answers will not necessarily be uniform across the Board
 - Section 41 of the PBSA requires that the trustees assess themselves
 - Several benefits to trustee self-assessment

Trusteed plans – assessment issues

- Trustee self-assessment
 - What approaches are available?
 - Self-assessments
 - Board assessment
 - Third party assessment
 - Advantages and disadvantages of each
 - What questions should be asked in the trustee self assessment

Trusted plans – assessment issues

- Trustee self-assessment – competence
 - Actuarial
 - Advocacy/communication
 - Benefit administration
 - Climate/sustainability
 - Financial management
 - Governance
 - Industry/sector
 - Information technology
 - Investment
 - Leadership
 - Legal/regulatory
 - Risk management

Trusted plans – assessment issues

- Trustee self-assessment – behaviours
 - Active participant in discussions
 - Commitment (attendance, preparation)
 - Courteous, respectful, self-control
 - Critical/independent thinker
 - Holds others accountable
 - Integrity – impartial, maintains confidentiality, manages conflicts
 - Leadership
 - Policy/governance focus
 - Relationship builder

Challenges:

Assessing single employer plans

Single employer plans – assessment issues

- Issues unique to single employer plans
 - Section 41 PBSA requires the assessment of “the performance of administrative staff and any agents of administrator”
 - In single employer plan need to clarify who is responsible for the administration of the plan
 - How will their performance be assessed?
 - Existing human resource assessments?
 - Pension specific assessments?
 - Who will perform the assessment?

Questions and discussion
