



The Certified Employee  
Benefit Specialist® Program

# RPA2 Managing Retirement Plans Part 2

## Study Materials Update—April 2025

This material is required reading for purposes of the CEBS program and the national exams for the RPA 2 course administered on or after July 15, 2025.

This update corrects earlier printings of the RPA 2 Study Guide, Third Edition, in light of recent legislative changes. This update covers Modules 1, 2, 5, 8, 9, 11 and 12 of the Study Guide (First Printing: March 2024).

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# 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 digital Study Guide:

These updates will be reflected in the digital versions of the Study Guide.

### 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

**Pages 1 to 2, Assigned Reading:** Remove the current pages 1 to 2 from your Study Guide and replace them with the new pages that follow. Reading A and Appendix 1 have been replaced.

**Pages 7 to 18, Learning Outcomes 1.1 to 2.3:** Remove the current pages 7 to 18 from your Study Guide and replace them with the new pages that follow. Learning Outcomes and page references have been updated.

**Pages A-1 to A-17, Context for Employer-Sponsored Retirement Plan Fund Investment Management:** Remove the current pages A-1 to A-14 from your Study Guide and replace them with the new pages that follow. Reading A has been updated based on the new Appendix 1.

**Appendix 1, CAPSA Guideline No. 3, Guideline for Capital Accumulation Plans.** Remove the current Appendix 1 from your Study Guide and replace it with the new pages that follow. CAPSA published a modernized Guideline No. 3 in September 2024.



# Navigating the Investment Environment of Employer-Sponsored Retirement Plans

## Module 1

This course addresses the investment management functions of employer-sponsored retirement plans. Growth of retirement plans results from the combination of contributions made to a fund and growth of the investments held within the fund. As time passes, the investment income stream can become the most significant factor in the registered retirement plan fund's growth; therefore, an effective investment management process is critical to the successful operation of the pension plan.

Module 1 provides an overview of the context for investment management, a recap of the regulatory and governance environment in which retirement plans operate, and an introduction to the investment cycles of DB pension plans and CAPs. This module also introduces basic concepts of Canadian investment markets and explores how retirement plans operate within those markets.

Modules 2 through 7 introduce basic investment concepts and theories that provide the foundation for investment analysis and decision making. Modules 8 through 11 look at the practical application of these concepts and theories to both DB pension plans and CAPs, including:

- (a) Investment-specific legislation and regulations as well as best practice guidelines affecting registered plan asset management
- (b) Roles and responsibilities of key stakeholders on the asset management team, including the plan sponsor, pension committees and boards of trustees
- (c) Management of issues related to each step in the investment cycle
- (d) Reporting and communications requirements and practices
- (e) Industry tools and guidelines that support sound plan asset management.

## Assigned Reading



### Reading A

Context for Employer-Sponsored Retirement Plan Fund Investment Management, Study Guide Module 1, Pages A-1 to A-17

### Reading B

CAPSA Guideline No. 7, Pension Plan Funding Policy Guideline, Study Guide Module 1, Pages B-1 to B-16

### Reading C

CAPSA Guideline No. 5, Guideline on Fund Holder Arrangements, Study Guide Module 1, Pages C-1 to C-14

### Reading D

How Pension Funds Participate in Financial Markets, Study Guide Module 1, Pages D-1 to D-6

### Appendix 1

CAPSA Guideline No. 3, Guideline for Capital Accumulation Plans (CAP Guidelines), Section 1.3 (Pages 6-8 ), 2.2.1, 2.2.2, 2.2.4 (Pages 11-12 ), 3.1.1, 3.1.2 (Pages 14-15), 4.1, 4.2, 4.3 (Pages 19-20)

### Text

Chapter 1 (The Investment Environment), Pages 1-15 (to “The Financial Crisis of 2008-2009”)

**Candidate Note:** The material in this chapter identifies “households” as one of the primary participants in Canadian financial markets. Their role is described as being one of “savers”: purchasing securities issued by entities that need to raise funds. Given the magnitude of the investments made by employer-sponsored retirement plans, and—by extension—the many household members who participate in a retirement plan sponsored by their employer, it is appropriate to include retirement plans within this definition since they have similar involvement in many aspects of the financial markets as households. **As a result, the Content Knowledge Review questions throughout the RPA 2 course include references to retirement plans as well as households.**

**Candidate Note:** In this module, reference is made to target benefit arrangements (TBAs) and target benefit plans (TBPs). The terms are equivalent. Both refer to the situation where funding levels are set by a collective agreement and benefit levels ultimately are “targets.”



## Learning Outcome



# 1

Describe the regulatory regime and resultant governance activities affecting investment management activities of retirement plan sponsors.

- 1.1 Explain the broad impact of legislation on retirement plans.** (Reading A, Context for Employer-Sponsored Retirement Plan Fund Investment Management, Study Guide Module 1, p. A-2)

Governments regulate retirement plans from two perspectives:

- (1) The federal Income Tax Act (ITA) allows for tax deductions and tax deferrals related to retirement plans, up to specified limits.
- (2) Pension standards legislation in most Canadian jurisdictions applies to defined benefit (DB) and defined contribution (DC) pension plans, with the major objectives of enhancing the security of pension plan benefits and ensuring the provision of certain benefits prescribed at minimum levels.

**1.2 Define retirement plan governance. Describe its purpose and scope.** (Reading A, Context for Employer-Sponsored Retirement Plan Fund Investment Management, Study Guide Module 1, p. A-3)

Retirement plan governance refers to the structure and processes for overseeing, managing and administering a plan to ensure that the fiduciary and other obligations of the plan are met.

Effective governance establishes roles and responsibilities for the following key areas of plan management:

- (a) Administration and communication. This includes establishing plans and addressing regulatory compliance; establishing the range of processes, systems and technologies required to administer plan contributions; determining benefits; and investing plan contributions.
- (b) Financial management. This can include determining the desired level of plan funding within regulatory constraints, making the choice of whether to use financial products to assist in securing benefit obligations, and measuring and recognizing pension costs in the sponsoring entity's financial statements.
- (c) Investment management of fund assets. This must be done in a manner consistent with regulatory constraints and the sponsoring entity's selected investment risk constraints.

**1.3 Outline principles of pension plan funding and the purpose of a DB pension plan funding policy. Identify factors that can be relevant in developing the funding policy.** (Reading B, CAPSA Guideline No. 7, Pension Plan Funding Policy Guideline, Study Guide Module 1, pp. B-3 to B-5)

Funding requirements promote benefit security. The goal of funding a DB single employer pension plan is to ensure that assets together with future contributions and amortization payments are sufficient to deliver the promised benefits on an ongoing basis and to protect pension benefits in situations that involve employer insolvency or bankruptcy.

The purpose of a funding policy is to establish a framework for funding the plan. The policy should support the decision-making process and be consistent with the purpose and goals of the pension plan and the plan sponsor.

When developing a funding policy, all factors relevant to the plan and plan sponsor should be taken into consideration, including:

- (a) Benefit security and the extent to which that is communicated to plan members/beneficiaries
- (b) Level of benefits
- (c) Stability and/or affordability of contributions
- (d) The sponsor's financial position and competing organizational demands for cash
- (e) The desire to include a buffer for adverse experience and time frame over which the objective is achieved
- (f) The minimum and desired funding ratio of the plan
- (g) The demographic characteristics of those entitled to benefits under the plan
- (h) The minimum funding requirements (going concern and solvency) under pension standards legislation
- (i) The financial position of the pension plan
- (j) The material risks impacting the plan's funding requirements and the risk mitigation strategies
- (k) The limits and requirements under the ITA
- (l) The terms of the plan document and any related documents (e.g., collective bargaining agreement) between the plan sponsor and plan beneficiaries
- (m) Legislative requirements and plan provisions relating to utilization of funding excess
- (n) Frequency of preparation of actuarial valuations and strategy for statutory filings
- (o) Strategy and process for dealing with reductions in accrued benefits under target pension arrangements (TPAs)
- (p) Tax planning and impact on plan sponsor's financial statements.

**1.4 Outline the advantages of developing a funding policy identified in CAPSA**

**Guideline No. 7, Pension Plan Funding Policy Guideline.** (Reading B, CAPSA Guideline No. 7, Pension Plan Funding Policy Guideline, Study Guide Module 1, pp. B-6 to B-7)

Advantages of developing a funding policy include:

- (a) Improvement of the identification, understanding and management of the risk factors that affect the variability of funding requirements and the security of benefits. Undertaking this exercise should lead to more robust governance.
- (b) A potential increase in the plan sponsor's discipline around funding decisions. This could contribute to more predictability in funding.
- (c) Improvement of the transparency of funding decisions and increased understanding by the plan beneficiaries of pension funding issues.
- (d) Provision of guidance to the pension plan's actuary when selecting actuarial methods and assumptions in accordance with actuarial standards of practice and within the pension plan's risk tolerance limits.

**1.5 Outline the key elements of a DB pension plan funding policy identified in CAPSA Guideline No. 7, Pension Plan Funding Policy Guideline.** (Reading B, CAPSA Guideline No. 7, Pension Plan Funding Policy Guideline, Study Guide Module 1, pp. B-7 to B-14)

The following elements are considered “best practice” issues to take into account when establishing a funding policy. Ideally, the policy would address how each issue relates specifically to the plan.

- (a) An overview of the plan, including plan type, governance structure, plan provisions, plan demographic profile, related financial information and relevant plan sponsor characteristics
- (b) How the funding objectives integrate with the plan’s investment policy and plan sponsor or plan objectives
- (c) Key risks faced by the plan from the perspectives of various plan stakeholders, including how those risks can affect the security of beneficiaries’ benefits
- (d) The risk appetite of the plan stakeholders
- (e) The structure and characteristics of the plan’s liabilities as they relate to the plan’s tolerance for volatility in funding status, including how key plan risks lead to funded status volatility as well as what mitigation plans and tools are available. Scenario testing tools to evaluate the impact of hypothetical situations upon funding requirements could be included.
- (f) Funding targets, contribution target levels, benefit level targets, and established cost-sharing arrangements (if applicable) expressed in relation to measures specific to the plan’s funding objectives
- (g) Cost-sharing mechanisms between plan beneficiaries and the employer
- (h) The plan sponsor’s policy on using funding excess for an ongoing plan and in the event of a plan termination, including any desired margins to be maintained before funding excess can be used
- (i) Guidance for the plan’s actuary in selecting actuarial methods and assumptions that are appropriate for the risk management approach of the plan. This guidance can include the going concern cost method, desired margins or provision for adverse deviations, and acceptable asset valuation methods and ranges. This information can be used by the actuary in selecting methods and assumptions for the plan.
- (j) Standards for actuarial valuation frequency
- (k) Documentation of roles, responsibilities and oversight for the funding policy, including circumstances that would trigger a review or amendment of the policy
- (l) A plan for communication of the funding policy to plan beneficiaries.

**1.6 Describe the special considerations that apply when developing a funding policy for pension plans that are target pension arrangements (TPAs) as identified in CAPSA Guideline No. 7, Pension Plan Funding Policy Guideline.** (Reading B, CAPSA Guideline No. 7, Pension Plan Funding Policy Guideline, Study Guide Module 1, p. B-14)

For many TPAs, future or accrued benefits may be adjusted depending on the financial status and the contribution requirements of the plan. As such, it would be expected that most TPAs would have formal benefit adjustment provisions or policies and that there is a strong linkage between the funding and benefits policies. For plans where both contributions and benefits may be adjusted based on the financial position of the plan (and the associated interaction and priority between contribution and benefit adjustment policies), it may make sense for the funding and benefits policies to be in a combined document. In either case, the funding policy should reflect the key features of the benefits adjustment policy.

For TPAs, benefit levels will typically need to be adjusted to reflect the funding level of the plan. Volatility in the plan's financial position can translate into fluctuating benefit levels. As a result, stronger ties must be established between the funding policy and the benefits policy and how these are communicated to plan beneficiaries.

For TPAs, there may be situations where responsibilities are shared between different plan stakeholders, and the funding policy might be covered by more than one document. The funding policy should clearly define the roles the plan sponsor and plan administrator have in its establishment and implementation.

In the particular case of a MEPP, the plan administrator would typically be responsible for the adoption of the funding policy. In the discussion of other elements of the funding policy for a MEPP, any role that is assumed by the plan sponsor would be assumed by the plan administrator. However, the development of the funding policy for a MEPP would recognize that the administrator does not control the level of contributions made to the plan.

**1.7 Describe an employer's responsibilities as identified in CAPSA Guideline No. 5, Guideline on Fund Holder Arrangements.** (Reading C, CAPSA Guideline No. 5, Guideline on Fund Holder Arrangements, Study Guide Module 1, pp. C-4 to C-5)

The employer is responsible for remitting contributions to the pension fund within the time periods and in the amounts required by applicable pension legislation, the terms of the pension plan and the relevant terms of any collective agreements. By fulfilling this obligation, the employer meets its funding obligation and helps ensure that the pension fund's assets are held separate and apart from its own assets. The employer is responsible for keeping accurate, up-to-date records on each plan member's length of service and earnings as well as any other information the administrator requires and providing all of this information to the administrator in a timely manner.

**1.8 Describe the plan sponsor's responsibilities as identified in CAPSA Guideline No. 5, Guideline on Fund Holder Arrangements.** (Reading C, CAPSA Guideline No. 5, Guideline on Fund Holder Arrangements, Study Guide Module 1, p. C-5)

The plan sponsor is responsible for establishing the pension plan and ensuring that it always has an administrator. The plan sponsor is responsible for making amendments to the pension plan and deciding if it should be wound up. If the pension plan is wound up, the administrator is responsible for ensuring that it is wound up in accordance with the requirements of the applicable pension legislation and pension plan documents.

**1.9 Describe the administrator's responsibilities as identified in CAPSA Guideline No. 5, Guideline on Fund Holder Arrangements.** (Reading C, CAPSA Guideline No. 5, Guideline on Fund Holder Arrangements, Study Guide Module 1, p. C-5)

The administrator is responsible for the overall administration of the pension plan and the administration and investment of the pension fund. One of the administrator's primary duties is to select one or more fund holders to manage the pension fund and to ensure that the pension plan and pension fund are administered and invested in accordance with applicable pension legislation, ITA and pension plan documents.

**1.10 Describe a fund holder's responsibilities as identified in CAPSA Guideline No. 5, Guideline on Fund Holder Arrangements.** (Reading C, CAPSA Guideline No. 5, Guideline on Fund Holder Arrangements, Study Guide Module 1, p. C-8)

The fund holder is the financial institution or party that is retained by the administrator to hold all or part of the pension fund's assets exclusively for the pension plan. Fund holders are responsible for:

- (a) Holding funds in a manner that meets the requirements of pension standards legislation and ITA
- (b) Acting under the terms of a fund holder agreement that meets the requirements of pension standards legislation
- (c) Where required, reporting omissions or delays in contribution remittances to the applicable pension regulator
- (d) Meeting the responsibilities for reporting and recordkeeping that are set out in the fund holder agreement
- (e) Acting on direction from the administrator, or its delegate, in accordance with the applicable legislation and the pension plan's statement of investment policies and procedures (SIPP)
- (f) Ensuring that the pension fund's assets are kept separate and apart from the employer's and fund holder's assets

- (g) Ensuring that the pension fund's assets are held exclusively for the pension plan and that the fund holder has clear, accurate and up-to-date records reflecting this requirement.

**1.11 Identify requirements under pension legislation and ITA regarding who can be the fund holder of a pension plan.** (Reading C, CAPSA Guideline No. 5, Guideline on Fund Holder Arrangements, Study Guide Module 1, p. C-13)

Pension legislation and ITA dictate that the pension fund must be held in the name of the pension plan by one of the following:

- (a) An insurance company licensed to do business in Canada under an insurance contract
- (b) A trust—that is governed by a written trust agreement—with a trust corporation in Canada
- (c) A group of individual trustees where:
  - There are three or more individuals
  - At least three of these trustees reside in Canada
  - At least one trustee is not a connected person, a partner of the employer or a proprietor of the employer's business (this type of fund holder must have a custodian to hold the pension fund's assets)
- (d) Any other party that is permitted by pension legislation.

**1.12 In the context of pension plan assets, define the term “custodian,” describe its responsibilities and outline the relationships that can exist between custodians and fund holders as identified in CAPSA Guideline No. 5, Guideline on Fund Holder Arrangements.** (Reading C, CAPSA Guideline No. 5, Guideline on Fund Holder Arrangements, Study Guide Module 1, pp. C-9 and C-12 to C-14)

Pension legislation requires that the pension fund be held separate and apart from the employer's and fund holder's assets and be in the name of the pension plan.

A “custodian” is a financial institution that holds some or all the pension fund's assets pursuant to an agreement with the plan's fund holder. Although the custodian is not a fund holder, the fund holder may also be a custodian.

The custodian's responsibilities are generally solely related to the safekeeping and servicing of the pension fund's assets. The custodian is responsible for holding these assets in accordance with the terms of the custodial agreement and must be capable of segregating the pension plan's assets as well as meeting the reporting and recordkeeping requirements of the custodial agreement. A custodian does not have legal title to the assets and does not have tax-reporting obligations. The custodian is retained through a contract and owes duties only to the party that retained its services.



**1.13 Outline some of the reasons a pension plan may utilize more than one fund holder as identified in CAPSA Guideline No. 5, Guideline on Fund Holder Arrangements.**

(Reading C, CAPSA Guideline No. 5, Guideline on Fund Holder Arrangements, Study Guide Module 1, pp. C-9 to C-10)

Pension plans may utilize more than one fund holder for any of the following reasons:

- (a) The plan may provide benefits under both DB and DC provisions and engage a different fund holder for each provision.
- (b) There may have been a merger of pension plans, each with its own fund holder.
- (c) The plan may be large and complex, requiring more than a single fund holder to meet its investment needs.

**1.14 Describe the key differences between the DB pension plan investment cycle and the CAP investment cycle.** (Reading A, Context for Employer-Sponsored Retirement Plan Fund Investment Management, Study Guide Module 1, pp. A-12 to A-13)

The key differences between the DB pension plan investment cycle and the CAP investment cycle are that:

- (a) In a DB pension plan, the plan sponsor is aiming for full funding of the plan, while in a CAP, the plan sponsor is aiming to meet its responsibilities as a CAP sponsor by providing plan members with appropriate investment options.
- (b) In a DB pension plan, the governance committee makes decisions regarding asset mix and specific investment options, while in a CAP, the governance committee makes decisions regarding investment options for the plan as a whole, and individual plan members decide on their own personal asset mix.
- (c) In a DB pension plan, education requirements relate to benefit provisions under the plan, while in a CAP, additional education requirements exist that relate to the investment decision process.

**1.15 Outline information regarding rights and responsibilities of CAP members that the Guidelines for Capital Accumulation Plans (CAP Guidelines) recommend be provided by plan sponsors.** (Appendix 1, CAPSA Guideline No. 3, Guidelines for Capital Accumulation Plans (CAP Guidelines), pp. 15-16)

The key member responsibilities to be communicated by the plan sponsor include the need to, where applicable:

- (a) Join the plan
- (b) Understand the nature and features of the plan
- (c) Make contribution decisions, including how much to contribute and when

- (d) Invest their contributions and investment balances, making decisions among the available investment options in the cap
- (e) Understand how the investment risk associated with their investment choices directly influence their potential outcomes
- (f) Have knowledge of the automatic or default features (e.g., investment options, contribution rates) and decide whether to accept application of these features
- (g) Use the education materials, resources and decision-making tools the cap sponsor provides
- (h) Read and retain their statement as well as other records and communications provided or made available to them
- (i) Understand fees, expenses, penalties and related restrictions that may be applicable from time to time
- (j) Inform themselves about how participation in the plan fits within the wider context of their personal financial situation, including tax implications particularly when invested in multiple plans
- (k) Obtain investment advice or financial planning advice from a qualified adviser, including regularly reviewing their investment selections, considering any changing life circumstances, how and how much to withdraw annually from retirement income, and which decumulation option(s)—if applicable—will best suit the member's goals
- (l) Ensure the ongoing accuracy of their personal and contact information and beneficiary designations on file with the cap sponsor and service provider; and
- (m) Select an appropriate option upon termination of active participation in the cap, within the timeframe provided.

## Learning Outcome

Outline the importance of financial markets to retirement plans.



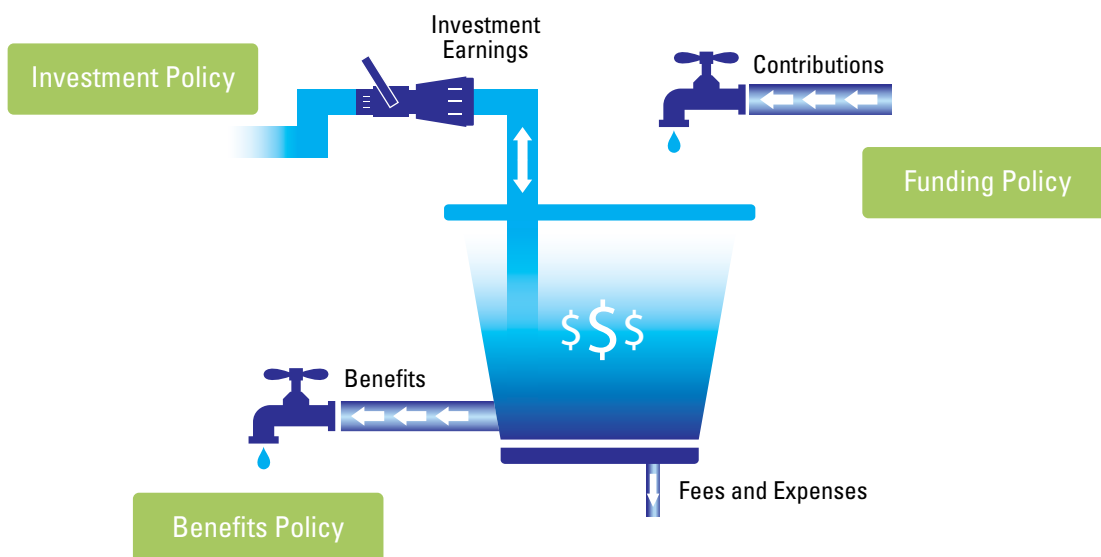
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**2.1 Outline the key policy areas that influence the overall financial performance of a DB pension plan, the net assets available for benefits and accrued pension benefits as well as whether the plan is in a funding excess or funding deficiency position at the end of any given fiscal year.** (Reading A, Context for Employer-Sponsored Retirement Plan Fund Investment Management, Study Guide Module 1, pp. A-7 to A-8)

The overall financial performance of a DB pension plan can be seen by identifying the relationship between the plan obligations (i.e., accrued benefits) and the assets available in the pension fund to support those obligations. The relationship will show whether the plan is in a funding surplus or funding deficiency position at the end of any given fiscal year. All the components of the plan's overall financial performance are impacted by decisions and/or performance in three key policy areas:

- (1) Benefits policy—Level and types of benefit entitlements of active members and retirees
- (2) Funding policy—Nature and timing of contributions
- (3) Investment policy—Mix of investment vehicles and risk exposure of the plan.

The relationship can be depicted visually as:



**2.2 Explain why it is critical to coordinate the benefits, funding and investment policies of a DB pension plan.** (Reading A, Context for Employer-Sponsored Retirement Plan Fund Investment Management, Study Guide Module 1, p. A-8)

It is critical to coordinate these policies so that the total financial performance of the plan can be managed toward the specific objectives set by the plan sponsor and once set, monitored to ensure that the policies are consistent with the objectives. While objectives vary by plan sponsor, they typically include target funding levels, level and volatility of pension expense, and level and volatility of cash contributions. Changing economic conditions and business needs may trigger the need to refine objectives or modify policies.

**2.3 Explain the importance of investment returns to a DB pension plan.** (Reading A, Context for Employer-Sponsored Retirement Plan Fund Investment Management, Study Guide Module 1, p. A-9)

Investment returns can significantly contribute to the asset level of a pension fund and, as a result, the management of the pension fund becomes a key part of the DB pension plan governance process.

This is because the plan governance process for a DB plan (and MEPPs and TBPs) includes decisions made to maintain or attain a fully funded position over the long run. In a single employer DB plan, the plan sponsor holds the responsibility that plan assets are sufficient to cover the cost of future pension payments for all members. As a result, the existence of funding excesses or shortfalls affects plan sponsor decisions. In MEPPs and TBPs, the responsibility for ensuring full funding over the long term is jointly held by plan sponsors and plan members, and the existence of funding excesses or shortfalls also calls for decisions within the plan governance process.

## Reading



### Context for Employer-Sponsored Retirement Plan Fund Investment Management

Pension plan administrators in Canada are charged with overall stewardship responsibilities, including those related to the investment management process. In most single employer pension plans, the employer is the legal administrator. The exception is in Québec, where the pension plan administrator must be a pension committee. For multi-employer pension plans (MEPPs), the pension plan administrator is normally the board of trustees established by the plan's stakeholders. When the employer is the legal administrator, the investment management process will typically be delegated to a pension committee; boards of trustees may establish a pension committee as well.

For defined benefit (DB) pension plans, the plan administrator develops investment objectives that relate to the specific nature of the plan and its funding requirements. This guides the selection of the classes of securities (e.g., stocks and bonds) considered to be most appropriate in the pursuit of the objectives. Then, the specific types of funding vehicles and investment managers can be identified, and the overall investment structure for the plan can be put in place. Once operational, the focus turns to ongoing monitoring and evaluation of the pension plan's portfolio.

In defined contribution (DC) registered plans, including DC pension plans, Group Registered Retirement Savings Plans (Group RRSPs) and deferred profit-sharing plans (DPSPs), the investment management process begins with an understanding of the plan's specific purpose and member demographics. A DC plan sponsor can exercise control of all investment and asset-mix decisions for the membership as a whole, but this is not the usual situation.

Most DC plan sponsors allow plan members to determine their own investment strategy and then select investments from a list of options determined by the plan administrator. Plans that operate in this manner fall under the Guideline for Capital Accumulation Plans (CAP Guidelines) issued by the Canadian Association of Pension Supervisory Authorities (CAPSA). For the purposes of this course, such plans are referred to as capital accumulation plans (CAPs). In a CAP, once the plan's purpose and member demographics have been considered, the focus shifts to determining the investment choices to be made available to plan members, determining a manager structure, selecting investment managers and monitoring the fund performance on an ongoing basis.

## Government Regulation

Federal and provincial/territorial governments regulate retirement plans from two perspectives:

1. Availability of employer and employee tax deductions and tax deferrals (up to specified limits), provided and regulated by the federal Income Tax Act (ITA)
2. Security of pension and other benefits under defined benefit (DB) pension plans and defined contribution (DC) pension plans as well as provision of certain benefits at prescribed minimum levels. These are the major objectives of pension standards legislation enacted in most Canadian jurisdictions.

## ITA

The development and design of retirement plans have been significantly influenced by the long-term favourable treatment accorded to pension plans under federal income tax law. As a result, the requirements of ITA are a major consideration in the design of pension and other retirement plans.

ITA is monitored by the Canada Revenue Agency (CRA), with the federal Department of Finance being responsible for federal tax policy and legislation.

## Pension Standards Legislation

There is no requirement under pension standards or income tax legislation for an employer to sponsor any type of retirement plan for its employees—Establishment of such plans is a voluntary decision by the employer. For an RPP to obtain favourable treatment under the ITA, it must also be registered with the applicable federal or provincial/territorial pension regulatory authority. Non-pension registered retirement plans (e.g., Group RRSPs or DPSPs) must be registered with CRA but are not subject to pension standards legislation.

Registration of an RPP with the applicable jurisdiction will require the terms and operations of the plan to meet the terms of the pension standards legislation.

The dual objectives of pension standards legislation are (1) enhancing the security of pension plan benefits through oversight of plan operations and (2) ensuring certain minimum plan terms. Benefit provisions such as eligibility for membership, vesting, portability of pensions and death benefits as well as the financial and investment operations of pension plans are all impacted by this legislation.

## Retirement Plan Governance

Retirement plan governance refers to the structure and processes for overseeing, managing and administering a plan to ensure that the fiduciary and other obligations of the plan are met. Effective governance establishes roles and responsibilities for the following key areas of plan management:

- (a) Administration and communication. This includes establishing plans and addressing regulatory compliance; establishing the range of processes, systems and technologies required to administer plan contributions; determining benefits; and investing plan contributions.
- (b) Financial management. This varies significantly by plan type and can include determining the desired level of plan funding within regulatory constraints, choosing to use financial products to assist in securing benefit obligations, and measuring and recognizing pension costs in the sponsoring entity's financial statements.
- (c) Investment management of fund assets. This must be done in a manner consistent with regulatory constraints and the sponsoring entity's selected investment risk constraints.

The complexity of the governance function depends on plan type—DB pension plan, DC pension plan, group Registered Retirement Savings Plan (RRSP) or deferred profit-sharing pension plan (DPSP). While the federal and provincial pension standards legislation prescribes the general standard of care for the administration of RPPs, two key frameworks established by the Canadian Association of Pension Supervisory Authorities (CAPSA) also recommend principles for effective plan governance and discuss appropriate roles and responsibilities of the plan operation. Numerous other guidelines issued by CAPSA and other regulators, including the Office of the Superintendent of Financial Institutions (OSFI) and the Financial Services Regulatory Organization (FSO) of Ontario, offer complementary and/or more specialized guidance that interface with the governance function.

A significant guideline is CAPSA's Guideline for Risk Management for Plan Administrators.

### Application of Risk Management in Retirement Plan Governance Function

“The Risk Management Guideline is applicable to pension plan administrators of defined benefit, defined contribution, pooled registered, target benefit or hybrid plans. It defines elements of a risk management framework and sets out principles to identify, evaluate, manage and monitor material risks. The Risk Management Guideline notes that it is intended to complement other CAPSA guidelines that reference risk management, including Guideline No. 4—Pension Plan Governance (covered in RPA 1) and Guideline No. 7—Pension Plan Funding Policy (covered in this Module).

According to the Guideline, risk management involves each of the following:

- (a) Establishing sound governance and oversight commensurate with the pension plan's complexity and size
- (b) Establishing processes and methodologies for identifying, evaluating, managing and monitoring risks that may adversely impact a pension plan's ability to operate as intended and deliver benefits to plan beneficiaries
- (c) Establishing effective controls (in the form of systems, procedures or arrangements) to understand, manage and mitigate those risks.

It also considers several areas in which a risk management framework should help identify risks relating to plan administration, including the way the plan is governed, managed, and administered; the way the plan's assets are invested; the way the plan's liability, funding, and benefit adequacy are managed; and the way the plan communicates with members.

It notes that risk management is an important consideration for plan sponsors as well as administrators, indicating that plan administrators and plan sponsors need to work together to identify and manage risks, and specifically addresses the situation in which the plan administrator and plan sponsor may be the same entity, stating that, in this case, "the plan administrator should consider the potentially conflicting responsibilities and how it will resolve any conflicts that arise by virtue of its dual role."

It also notes that plan administrators should establish—in the form of a written statement—their overall risk appetite, risk tolerance and risk limits and incorporate these into the plan's governance and risk management frameworks. It sets out the following four-step process.

1. Identify risks—Plan administrators should document the risks identified and, for each risk, the stakeholders that are impacted.
2. Evaluate risks—Plan administrators should develop a process, based on the nature, size and complexity of the plan, for evaluating and prioritizing the risks according to the overall threat that they pose to the plan's viability and their potential impact on the plan's stakeholders, both separately and in combination.
3. Manage risks—Plan administrators should implement suitably designed controls to manage risks, including risks relating to errors, irregularities and fraud.
4. Monitor risks—Plan administrators should consider information drawn from various available sources, such as audit reports, member surveys, valuation reports, and administration and investment reports.

Risk considerations for the following specific topics are addressed, noting that not all of the following concepts may be applicable or feasible for all pension plans and stressing the need for plan administrators to adapt risk management practices to reflect their plan's investment beliefs, specific circumstances and risks.



- (a) Third-party risk: This is defined in the Guideline as the risk to the plan's operational and financial resilience or reputation due to a third party failing to provide goods and services, protect data or systems, or otherwise carry out activities in accordance with the arrangement with the plan administrator. The plan administrator's fiduciary obligations even where certain services and responsibilities are delegated to others are highlighted as is the need for plan administrators to take steps to define and document third-party responsibilities and implement effective oversight of third-party service providers and advisors.
- (b) Cybersecurity: Cyber risk is defined in the Guideline as the risk of financial loss; operational disruption; or reputational damage from the unauthorized access, malicious and nonmalicious use, failure, disclosure, disruption, modification, or destruction of information technology systems and/or the data contained therein, which can have both internal and external components. The key takeaways relating to cybersecurity are as follows.
  - Cyber-risk is a key risk for all plans, and it is an evolving risk requiring a dynamic response.
  - A plan administrator's fiduciary responsibilities require an administrator to have access to the skills, expertise and/or training to understand and manage cyber risk
  - Roles and responsibilities relating to cyber risk need to be defined, assigned and understood
  - Plan administrators should have a strategy to deal with responding and reporting cybersecurity incidents.
- (c) Investment risk governance: While no comprehensive definition of *investment risk* is provided, the Guideline indicates that a key consideration regarding investment risk is identifying the categories and level of investment risk that the plan administrator is willing or expected to take, so as to ensure that the impact of unexpected market shocks that could impact members' benefits are mitigated. A number of investment risk management practices are identified and explained.
- (d) Environmental, social and governance (ESG) issues: The Guideline sets out a number of principles to guide plan administrators in assessing and responding to ESG issues. ESG information may be relevant to governance, risk management and investment. The Risk Management Guideline notes that a plan administrator that ignores, or does not consider, ESG information that might materially affect the fund's financial risk-return profile could be in breach of their fiduciary duty, but recognizes that approaches to ESG information will vary depending on plan circumstances and considerations relating to cost efficiency.

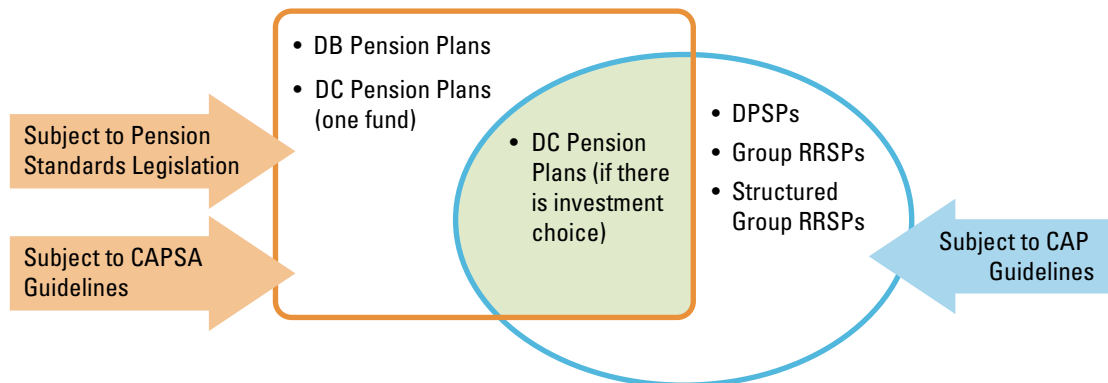
- (e) Use of leverage: According to the Guideline, leverage will exist if a technique or strategy is used to increase a plan's economic exposure to investment assets beyond what it could achieve by investing its capital in financial assets. The Guideline addresses common risks of leverage, including market risk, liquidity risk and counterparty risk and discusses risk management practices specifically focused on the risks associated with leverage.”<sup>1</sup>

For RPPs, some key governance activities are similar regardless of whether benefits are determined under a DB or DC structure. However, other governance activities such as the development and monitoring of benefits, funding and investment policy vary significantly between DB pension plans and DC pension and other capital accumulation plans.

Plans with a retirement savings/income focus such as a DC pension plan, group RRSP, DPSP, locked-in retirement account (LIRA), registered retirement income fund (RRIF), PRPP, VRSP and TFSA) that allow plan members to make investment choices among two or more available investment options are subject to CAPSA's Guideline for Capital Accumulation Plans (CAP Guidelines). The CAP Guidelines are included as Appendix 1. These do not have the force of law or regulation, but they provide a set of best practices for employers that sponsor plans offering choices. The CAP Guidelines focus on the respective responsibilities of the plan sponsor and plan members, industry best practices in their maintenance and administration and information to be provided to CAP members. Group RRSPs and DPSPs are not subject to pension standards legislation or the CAPSA Guideline because they are not pension plans. However some guidance targeted at pension plans has applicability. For example, the principles outlined in CAPSA Guideline No. 10, Guideline for Risk Management for Plan Administrators, particularly those related to cybersecurity; third-party risk; and environmental, social, and governance (ESG) issues, are relevant to the CAP governance.

### Exhibit I

#### Summary of Legislation and Governance Guidelines for DB Pension Plans and CAPs With a Retirement/Savings Income Focus



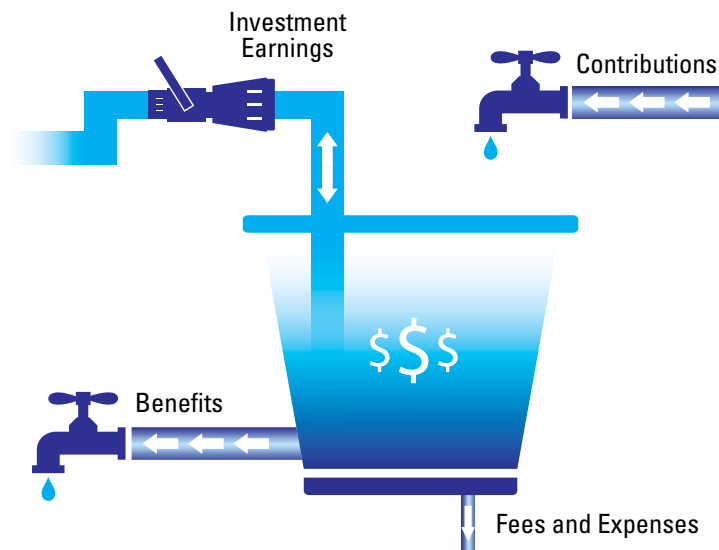
1. Drawn from Keeping Up With CAPSA: New Guideline for Capital Accumulation Plans and Risk Management Released, Blakes, September 26, 2024

## Financial Management of DB Pension Plans

One way to think of a DB pension plan is like one single bucket of funds as shown in Exhibit II. Sources of income for a pension fund include contributions (from the plan sponsor and/or plan members) and investment income (interest, dividends and capital gains) earned on funds not required to pay current benefits. Payouts from the pension fund include benefits paid to plan members and operating costs to administer the pension plan.

### Exhibit II

#### Sources and Uses of DB Pension Plan Funds



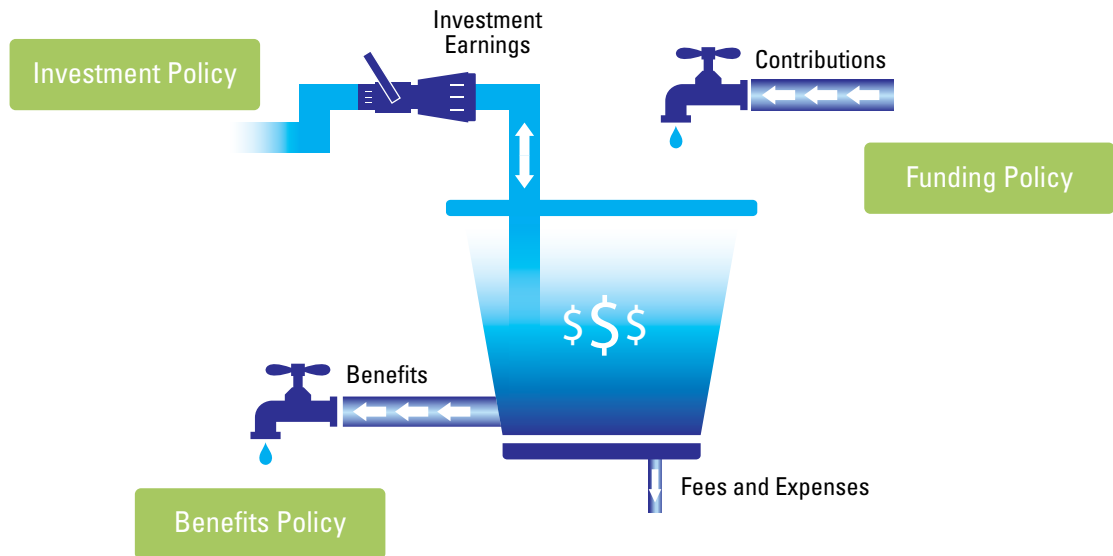
The overall financial performance of a DB pension plan can be seen by identifying the relationship between the plan obligations (i.e., accrued benefits) and the assets available in the pension fund to support those obligations. The relationship shows whether the plan is in a funding surplus or a funding deficiency position at the end of any given fiscal year. All components of the plan's overall financial performance are impacted by decisions and/or performance in three key policy areas:

1. Benefits policy—Level and types of benefit entitlements of active members and retirees
2. Funding policy—Nature and timing of contributions
3. Investment policy—Mix of investment vehicles and risk exposure of the plan.

The relationship between the sources and uses of funds and these policies is illustrated in Exhibit III.

### Exhibit III

#### Policies Affecting the Financial Performance of a DB Pension Plan



It is critical to coordinate these policies and manage plan expenses so that the total financial performance of the plan can be measured and managed toward the specific objectives set by the plan sponsor. While objectives vary by plan sponsor, they typically include target funding levels, level and volatility of pension expense, and level and volatility of cash contributions. Once set, the policies should be monitored to ensure that they remain consistent with the plan objectives. Changing economic conditions and business needs may trigger the need to refine objectives or modify policies.

Pension fund financial statements identify the plan sponsor's performance as it relates to following established funding and investment policies. In a DB pension plan, the size of the pension fund depends upon the respective levels of (1) contributions to the fund (plan sponsor and, if required, member), (2) payments from the plan for benefits and certain plan expenses, and (3) investment returns on invested monies not needed to pay benefits and expenses. The objective of the financial statements of the pension fund is to fairly present the financial position of the pension fund at a given year-end as a going concern.

The financial statements of the pension fund show only one side of the ledger when evaluating the health of a DB pension plan at a given point in time. The funding valuation for such a plan puts together the asset information from the financial statements with the plan's liabilities (i.e., its obligations to pay member benefits). Hence, the funding valuation provides the plan sponsor with a snapshot of the plan's financial health.

The funding valuation is prepared by an independent actuary. By law, the plan sponsor is required to file a funding valuation with pension regulators every three years—and perhaps more frequently if the plan's solvency position falls below the prescribed threshold in its jurisdiction.

The actuary determines the plan's liabilities by making assumptions about future plan demographics and economic conditions. The liabilities are then compared to the value of the pension fund on the valuation date. A comparison between these two key factors—plan liabilities and the pension fund assets—provides the plan sponsor, members and regulators with the plan's financial status on the valuation date. Over time, most plan sponsors have the objective of maintaining a balance between these two factors, without significant imbalances in either a positive or negative direction.

Investment returns can significantly contribute to the asset level of a pension fund; as a result, the management of the pension fund becomes a key part of the DB pension plan governance process.

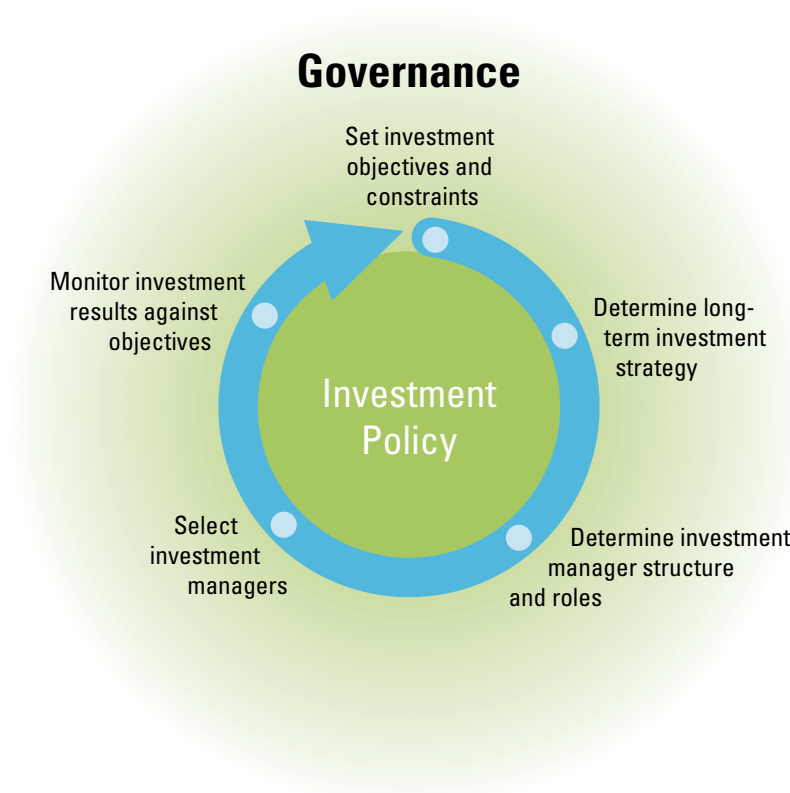
This is because the plan governance process for DB plans (and MEPPs and TBPs) includes decisions made to maintain or attain a fully funded position over the long run. In a single employer DB plan, the plan sponsor holds the responsibility that plan assets are sufficient to cover the cost of future pension payments for all members. As a result, the existence of funding excesses or shortfalls affects plan sponsor decisions. In MEPPs and TBPs, the responsibility for ensuring full funding over the long term is jointly held by plan sponsors and plan members, and the existence of funding excesses or shortfalls also calls for decisions within the plan governance process.

## DB Pension Plan Investment Cycle

The investment performance of a DB pension plan's assets is critical to the financial health of the plan, and as a result, most plan sponsors establish governance policies that are intended to help them manage and understand the performance of the investments. These can be expressed in the five steps of the following DB pension plan investment cycle:

1. Set investment objectives and constraints
2. Determine long-term investment strategy
3. Determine investment manager structure and roles
4. Select investment managers
5. Monitor investment results against objectives.

**Exhibit IV**  
**DB Pension Plan Investment Cycle**



## Financial Management of CAPs

In a CAP, the financial risk rests with plan members; however, the plan sponsor does assume some operational risk related to the investment opportunities provided to plan members and some responsibility for plan member investment-related education and communication.

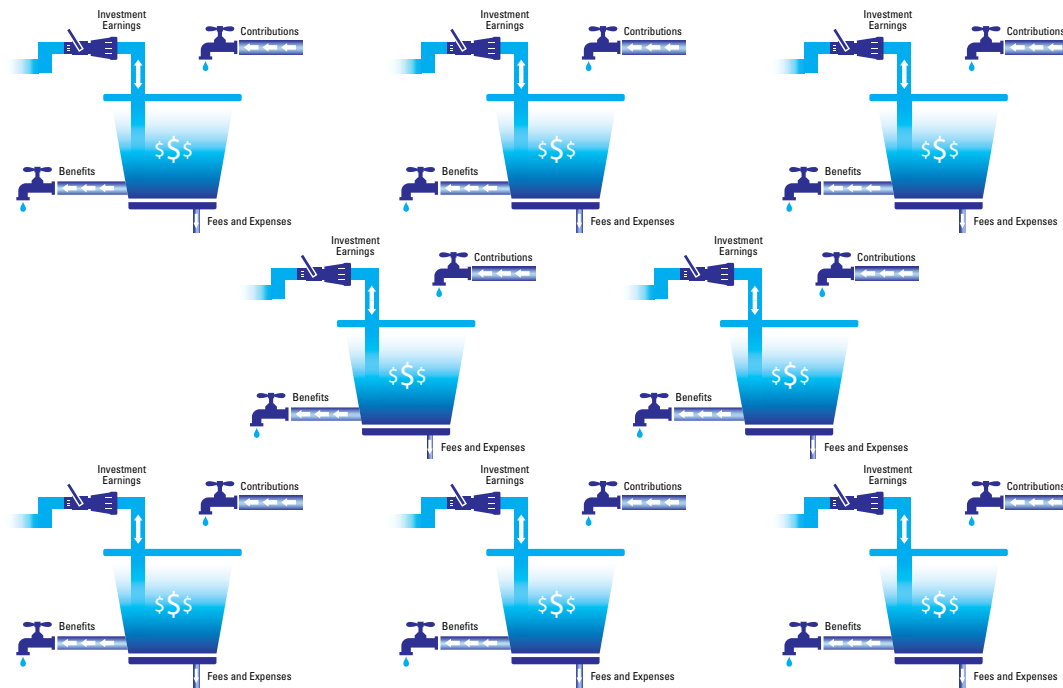
### CAP Investment Cycle

For all types of CAPs, the plan sponsor preselects the investment options available to plan members. ITA prescribes the nature of the investment options that are considered allowable for each type of CAP but, within that prescribed range, the plan sponsor is free to choose the options to make available under its specific plan. The members' chosen investments are then held under the "umbrella" of the pension plan, or trust, in individual accounts administered by the service provider retained for that purpose.

CAP members participate in their own personal bucket of funds. The inflows (sources of funds) and outflows (uses of funds) happen on an individual basis. Overall for each CAP, the situation can be illustrated conceptually by Exhibit V.

### Exhibit V

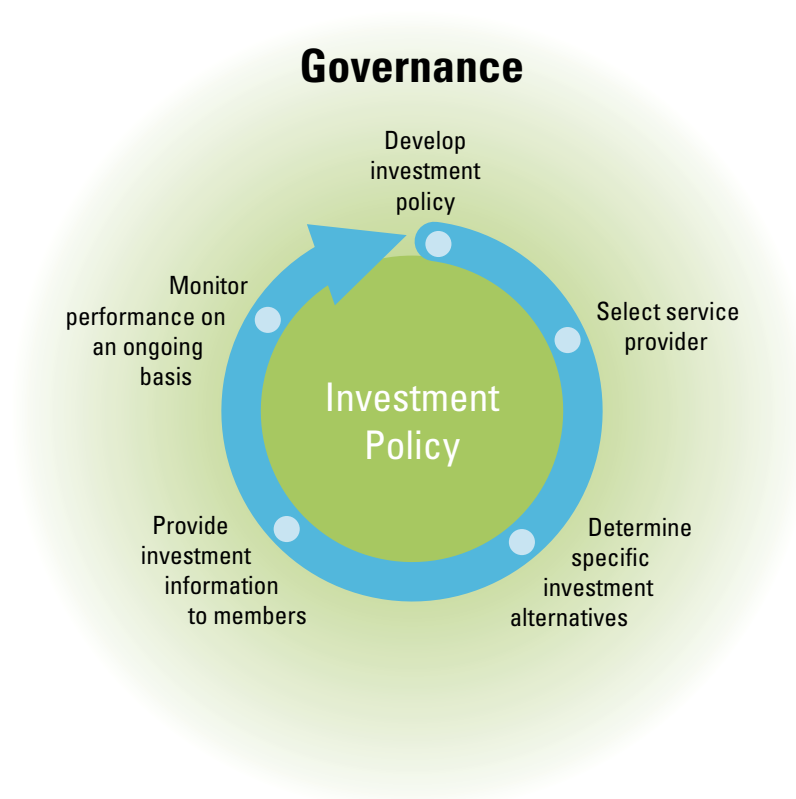
#### Sources and Uses of CAP Funds



Governance activities around CAP investments are required, and the associated investment cycle includes the following five key steps:

1. Set investment objectives and constraints
2. Determine service provider structure and select provider(s)
3. Select specific investment alternatives
4. Provide investment information to members
5. Monitor investment results against objectives.

**Exhibit VI**  
**CAP Investment Cycle**



## Comparison of DB Pension Plan and CAP Investment Processes

The major differences between the DB pension plan investment process and the CAP investment process are that:

- (a) In a DB pension plan, the plan sponsor is aiming for full funding of the plan, while in a CAP, the plan sponsor is aiming to meet its responsibilities as a CAP sponsor by providing plan members with appropriate investment options.
- (b) In a DB pension plan, the governance committee makes decisions regarding asset mix and specific investment options, while in a CAP, the governance committee makes decisions regarding investment options for the plan as a whole, and individual plan members decide on their own personal asset mix.



- (c) In a DB pension plan, education requirements relate to benefit provisions under the plan, while in a CAP, additional education requirements exist that relate to the investment decision process.

Table I compares CAPs and single employer DB pension plans from several perspectives, including investment risk, benefit adequacy, perceived value (ease of understanding), equity, tax effectiveness, administration and governance activities, cost, stability of contributions, funding flexibility and human resource (HR) planning.

**Table I**  
Comparison of CAPs and DB Pension Plans

<b>CAP Investment Risk</b>	<b>vs.</b>	<b>Single Employer DB Pension Plan Investment Risk</b>
Plan member assumes investment risk.		Plan sponsor assumes investment risk.
<b>CAP Benefit Adequacy at Retirement</b>	<b>vs.</b>	<b>Single Employer DB Pension Plan Benefit Adequacy at Retirement</b>

<ul style="list-style-type: none"> <li>• Depends upon: <ul style="list-style-type: none"> <li>– Level of contributions during the member's expected working career with the plan sponsor</li> <li>– Level of investment performance achieved over the period until the member's retirement date. Benefit level is directly affected by investment performance.</li> </ul> </li> <li>• Benefit adequacy is difficult to achieve if an individual starts contributing late in their career.</li> <li>• Typically, there is a relationship between investment growth and rate of increase of member's earnings. <ul style="list-style-type: none"> <li>– Benefit adequacy is jeopardized if employee earnings rise faster than the fund rate of investment return.</li> </ul> </li> <li>• Capacity to improve past service benefits is limited.</li> <li>• There is no maximum pension rule; benefits are restricted by the maximum contribution rule.</li> </ul>	vs.	<ul style="list-style-type: none"> <li>• Depends upon: <ul style="list-style-type: none"> <li>– Level of benefit selected by the plan sponsor (and union if plan is subject to negotiation)</li> <li>– Indirect effect of investment performance on the benefit level in career average earnings plans and for ad hoc pension increases</li> <li>– Member's period of credited service</li> </ul> </li> <li>• Benefits for plan members who frequently change jobs will likely be inadequate.</li> <li>• There is flexibility in providing enhanced early retirement programs or in improving past service benefits.</li> <li>• Benefits are restricted by the maximum pension rule.</li> </ul>
<b>CAP</b> <b>Perceived Value</b> <b>(Ease of Understanding)</b>	vs.	<b>Single Employer DB Pension Plan</b> <b>Perceived Value</b> <b>(Ease of Understanding)</b>
<ul style="list-style-type: none"> <li>• Immediate value is fairly easy to understand since plan members see exactly what the company is contributing and the accumulation of all contributions.</li> <li>• Longer term value can be difficult to understand since estimating eventual pension income is dependent on many unknown factors.</li> </ul>	vs.	<ul style="list-style-type: none"> <li>• Immediate value is often perceived to be low due to difficulty in understanding the amount of accruals because plan members do not expect to stay until retirement or because value is low at younger ages.</li> </ul>
<b>CAP</b> <b>Perceived Equity</b>	vs.	<b>Single Employer DB Pension Plan</b> <b>Perceived Equity</b>

<ul style="list-style-type: none"> <li>Contributions can be equal for any two plan members with the same earnings, regardless of age, sex or service period.</li> </ul>		<ul style="list-style-type: none"> <li>The value of benefits increases with age, especially if the employee stays until eligible for immediate retirement benefits.</li> </ul>
<b>CAP Tax Effectiveness</b>	vs.	<b>Single Employer DB Pension Plan Tax Effectiveness</b>
<ul style="list-style-type: none"> <li>There is a maximum limit on contributions to a CAP, which is the lesser of 18% of qualifying earned income and a maximum dollar amount that increases in line with increases in the average wage.</li> <li>Younger plan members who take full advantage of these limits have greater opportunity to accumulate substantial funds for retirement.</li> </ul>		<ul style="list-style-type: none"> <li>There is no dollar limit on employer contributions for an individual. Therefore, it is possible to contribute large amounts for past service.</li> <li>There is no limit on years of past service that can be included.</li> <li>Flexible pension plans can achieve optimum conditions for achieving tax effectiveness.</li> <li>There is a maximum limit on the benefits that can be provided, which is the lesser of 2% of indexed compensation and a maximum dollar limit per year of service that increases in line with increases in the average wage.</li> </ul>
<b>CAP Administration and Governance Activities</b>	vs.	<b>Single Employer DB Pension Plan Administration and Governance Activities</b>
<ul style="list-style-type: none"> <li>CAPs have complicated member-by-member recordkeeping requirements, so an outside service provider will normally be retained (e.g., insurer).</li> <li>The process to determine plan contributions is simple; actuarial valuations are not required.</li> <li>CAP Guidelines compliance requires extensive plan member communication and education programs.</li> </ul>		<ul style="list-style-type: none"> <li>Complexities relating to the pension regulatory environment mean that most plan sponsors will retain an outside service provider to maintain member records and provide necessary member disclosure statements.</li> <li>Actuarial valuations are needed at least triennially.</li> <li>Communication programs may be necessary in order to enhance member understanding of plan value.</li> </ul>
<b>CAP Costs (Funding, Administrative and Payroll Taxes)</b>	vs.	<b>Single Employer DB Pension Plan Costs (Funding, Administrative and Payroll Taxes)</b>

<ul style="list-style-type: none"> <li>• When a CAP sponsor tries to target a specific level of retirement benefit, funding costs can be more expensive than those for DB plans for a given level of retirement benefit because: <ul style="list-style-type: none"> <li>– Superior investment performance that usually accompanies plan sponsor-directed investment policies is often sacrificed.</li> <li>– Better benefits may be given to short-service employees terminating before retirement.</li> </ul> </li> <li>• Administration costs can be significantly lower for CAPs than for DB plans since actuarial services are not required and regulatory filing requirements are simpler (or, for nonpension CAPs, nonexistent).</li> <li>• For group RRSPs with plan sponsor contributions, additional payroll taxes may be incurred.</li> </ul>	vs.	<ul style="list-style-type: none"> <li>• Funding costs for single employer DB plans can be expensive when investment performance is poor. DB plans get less expensive as real rates of investment return increase. Funding costs are less expensive than those for CAPs for a given level of retirement benefit because: <ul style="list-style-type: none"> <li>– Plan sponsors are more inclined and more able than plan members to take on investment risk, resulting in superior investment performance.</li> </ul> </li> <li>• Administration costs for single employer DB plans can be high when actuarial, legal and recordkeeping services are needed to meet ongoing regulatory requirements.</li> <li>• There is no impact on payroll taxes.</li> </ul>
<b>CAP Stability of Contributions</b>	vs.	<b>Single Employer DB Pension Plan Stability of Contributions</b>
<ul style="list-style-type: none"> <li>• Plan sponsor contributions are stable as a percentage of payroll (but may fluctuate somewhat if plan sponsor contributions are related to the level of employee contributions).</li> </ul>		<ul style="list-style-type: none"> <li>• Plan sponsor contributions can fluctuate widely depending on investment performance, experience gains and losses, interest rates and benefit upgrades.</li> </ul>
<b>CAP Funding Flexibility</b>	vs.	<b>Single Employer DB Pension Plan Funding Flexibility</b>
<ul style="list-style-type: none"> <li>• No funding flexibility, except that company contributions may be reduced by forfeitures from employee terminations.</li> </ul>		<ul style="list-style-type: none"> <li>• Plan sponsors can use experience gains, timing of improvements or changes in assumptions to achieve funding flexibility.</li> </ul>
<b>CAP HR Planning</b>	vs.	<b>Single Employer DB Pension Plan HR Planning</b>

<ul style="list-style-type: none"><li>• CAPs do not coordinate well with strategies to reduce staff or keep key personnel.</li><li>• Poor investment performance during an economic downturn may inhibit employees from retiring when the company wants them to.</li><li>• Good performance may encourage people to retire when the company can least afford to lose them.</li></ul>	<ul style="list-style-type: none"><li>• Plans can be designed to encourage or discourage early retirement on a temporary or permanent basis and to reward long service.</li><li>• Benefits for early terminations can be improved significantly by use of a DB plan with enhanced termination benefits.</li></ul>
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**Guideline No. 3**

**Guideline for Capital Accumulation Plans**

**Published Date: September 9, 2024**

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CAPSA Guideline No. 3  
Guideline for Capital Accumulation Plans

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## SECTION 1: INTRODUCTION

This Canadian Association of Pension Supervisory Authorities (CAPSA) guideline updates and replaces the [2004 Guidelines For Capital Accumulation Plans](#) issued by the Joint Forum of Financial Market Regulators. It reflects the expectations of regulators regarding the operation of a capital accumulation plan (CAP), regardless of the regulatory regime applicable to the plan. It is intended to support the development of industry best practices.

This guideline is also relevant where CAP sponsors have chosen to offer retirement income options as part of or as an extension to their CAPs. Many of the administration, investment and communication principles will apply equally in the accumulation and decumulation phases.

Within this guideline, CAPSA has made an effort to be consistent, where possible, with the other guidelines it has issued. All CAPSA guidelines can be accessed by going to the CAPSA [website](#).

This CAP guideline applies to all CAPs, as that term is defined in this guideline, however CAPSA acknowledges that the application of this guideline is flexible and will vary depending on the nature (size, complexity, and other characteristics) of the CAP.

### 1.1 THE INTENT OF THIS GUIDELINE

The intent of this guideline is to outline and clarify the regulators' views on:

- i. the responsibilities of CAP sponsors, administrators, service providers and CAP members;
- ii. industry best practices in the maintenance and administration of a CAP; and
- iii. the information that should be provided to CAP members.

This guideline does not replace or modify any legal requirements applicable to particular CAPs.

### 1.2 DEFINITIONS OF TERMS USED IN THIS GUIDELINE

#### 1.2.1 Capital Accumulation Plan (CAP)

A "CAP" is a tax assisted investment or savings plan or program where members make decisions in respect of the investment of their individual accounts among two or more investment options selected by the CAP sponsor. A CAP may be established by an employer, trade union or other association, board of trustees, licensed administrator of a Pooled Registered Pension Plan (PRPP) or Voluntary Retirement Savings Plan (VRSP), or any combination of these entities for the benefit of its employees or members, or the employees of participating employers.

Examples of a CAP with a retirement savings/income focus may include the following plans or arrangements provided for employees or members: defined contribution pension plan (DCPP) with or without post-employment variable benefits options, registered retirement savings plan (RRSP), deferred profit-sharing plan (DPSP), locked-in retirement account (LIRA), registered

retirement income fund (RRIF), life income fund (LIF), PRPP, VRSP, and Tax Free Savings Account (TFSA). Examples of a CAP without a retirement savings/income focus include registered education savings plan (RESP) and First Home Savings Account (FHSA).

### 1.2.2 CAP Sponsors

The “CAP sponsor” is the entity that establishes the CAP and is responsible for the choice of investment options offered to CAP members or has assumed such responsibility for an existing CAP. The following table is a summary of possible CAP sponsors by common plan types.

**Table: CAP Sponsors by Plan Type**

Type of account	Licensed Administrator	Employer or Former Employer	Trade Union or Other Association	Financial Institution	Board of Trustees/ Pension Committee
LIF/RRIF/LIRA		✓	✓	✓	
PRPP/VRSP	✓				
DCPP <sup>1</sup>		✓			✓
RRSP		✓	✓	✓	
DPSP		✓			
RESP		✓	✓	✓	
FHSA		✓	✓	✓	
TFSA		✓	✓	✓	

### 1.2.3 Service Providers

“Service providers” include any provider of services or advice with whom the CAP sponsor has an agreement for the performance of duties relating to the establishment and/or the ongoing operation of a CAP. Examples include record keepers, investment managers and investment advisors. CAP sponsors may refer CAP members to the service providers to provide information and assist members with CAP-related decisions and with making their investment.

### 1.2.4 CAP Members

“CAP members” are individuals who have an individual account under a CAP. These individuals may include employees or former employees, self-employed individuals, trade union or other association members and in certain cases, their surviving spouses or common law partners.

<sup>1</sup> Under pension legislation, the duties of the employer sponsoring a DCPP are distinct from the duties of the DCPP plan administrator. Where used in this guideline, the term “CAP sponsor” includes a DCPP administrator, unless otherwise indicated.

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### 1.2.5 Investment Funds

For the purposes of this guideline only, an “investment fund” means a mutual fund (e.g., a redeemable fund or an exchange-traded fund (ETF), non-redeemable investment fund, segregated fund or similar pooled investment product made available to members under the CAP for the investment of their CAP assets or payment of retirement income).

The above definition is intended to broadly reflect the range of investment options that may generally be considered to be investment funds across securities, insurance and pension sectors.

### 1.2.6 Investment Options

An “investment option” means an investment fund or other type of investment made available to members under the CAP.

## 1.3 RESPONSIBILITIES OF CAP SPONSORS, SERVICE PROVIDERS, AND CAP MEMBERS

### 1.3.1 The CAP Sponsor

Pension legislation sets out a duty of care for DCPP administrators<sup>2</sup>. All CAP sponsors have responsibilities to CAP members which may in some instances include fiduciary responsibilities. The nature and extent of a CAP sponsor’s responsibilities depends on the type of CAP and its characteristics.

In maintaining a CAP, it is expected that the CAP sponsor will perform (or engage third party service provider(s) to perform) the tasks outlined in this guideline. Even where CAP sponsors have engaged service providers to carry out certain tasks or functions, the CAP sponsor retains ultimate responsibility for overseeing their CAP and should be engaged in fostering the achievement of the intended member outcomes.

The CAP sponsor is responsible for items such as:

- i. setting up the CAP;
- ii. determining the key features of the CAP, including automatic features, if any;
- iii. selecting service providers, if any;
- iv. selecting investment options and investment funds;
- v. maintaining records;
- vi. introducing the CAP and providing access to ongoing education to CAP members;
- vii. providing plan communications to CAP members;
- viii. providing CAP member access to decision-making tools and investment information;
- ix. maintaining oversight of the CAP, including the performance monitoring and oversight of

<sup>2</sup> A DCPP administrator has fiduciary responsibilities to plan members and beneficiaries. They may also have other responsibilities to other stakeholders (for more information see [CAPSA Guideline No. 4: Pension Plan Governance Guideline](#)).

- service providers and investment options, the review of fees and expenses, and of member education materials and decision-making tools;
- x. providing members with access to education on the options available upon their termination or retirement (as applicable); and
- xi. terminating the CAP.

In the sections that follow, each of the above responsibilities is addressed in detail.

It is recognized that in many CAP arrangements the CAP sponsor relies heavily on the knowledge and capabilities of one or more service providers. In those situations, the CAP sponsor's primary activities with respect to the CAP are likely to involve communication with its members and supervision of the performance of its service providers and investments.

### **1.3.2 Service Providers**

The service provider and the CAP sponsor should clearly define and document the tasks or functions the service provider is agreeing to perform.

Service providers engaged by the CAP sponsor must have the appropriate level of knowledge and skill to perform the tasks they agree to perform.

To the extent that a service provider agrees to perform tasks or functions within the areas of responsibility of the CAP sponsor, the service provider should follow this guideline. Any activities not carried out by a service provider must be carried out by the CAP sponsor.

Each service provider is expected to ensure that it complies with applicable laws as well as carrying out any commitments made to the CAP sponsor or CAP members.

Service providers that interact with CAP members should clearly inform CAP members whether they are providing investment advice. Service providers should inform the CAP sponsor, and where appropriate CAP members, if the service provider will monetarily benefit, beyond the fees otherwise disclosed, from a decision made by the CAP sponsor or CAP members.

### **1.3.3 CAP Members**

CAP members are expected to utilize CAP sponsor provided materials and information to help them understand all aspects of their participation in a CAP. CAP members should strive to understand their plan, and must make decisions regarding their contributions to, investments in and withdrawals from the CAP. CAP members bear the investment risk inherent in a CAP.

CAP members should obtain investment advice from a qualified individual in addition to using information or tools that may be provided by the CAP sponsor or service provider.

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Some key CAP member responsibilities include:

- informing themselves about the CAP's features and terms and their rights and obligations as participants in the CAP;
- making decisions about how much to contribute (where the CAP member can make this choice), and how much to allocate to any particular investment option;
- evaluating the automatic or default features of the CAP (e.g., investment options, contribution rates) and deciding whether to accept application of these features or make other choices;
- using the education materials and tools made available by the CAP sponsor (and service providers); and
- determining, if applicable, how, and how much to withdraw annually for retirement income and deciding which decumulation option(s), if applicable, will best suit their goals.

A more fulsome list of CAP member responsibilities is found under [Section 3.1.2 Outlining the Responsibilities of CAP Members](#).

## SECTION 2: SETTING UP A CAP

### 2.1 GENERAL

#### 2.1.1 Defining the Purpose of a CAP

CAP sponsors should clearly document the purpose of the CAP in terms of its intended outcome for members. It is crucial for CAP sponsors to have a clear understanding of the plan's purpose to assist in prioritizing decisions with the greatest impact on members' outcomes.

The terms of the plan should be consistent with its purpose and what is communicated to CAP members.

Some of the purposes for which a CAP sponsor may establish a CAP are:

- income at retirement;
- tax efficient compensation;
- profit sharing; and
- savings for other financial goals such as education, home purchase, etc.

Any decision to change the purpose of the plan should be documented and communicated to CAP members.

For DCPs in particular, it is important to note that the primary purpose of the DCP is to enable members to eventually receive lifetime retirement income from their savings<sup>3</sup>.

#### 2.1.2 Setting up a Governance Framework

The CAP sponsor should establish and document a governance framework for administration of the plan appropriate for the size, complexity, and other characteristics of both the CAP and the CAP sponsor, which may include:

- i. a description of the roles, responsibilities and accountabilities of any stakeholders or parties involved in the governance of the plan (e.g., employer, union, board of directors, pension committee, governance committee, service providers, plan members);
- ii. a communication process, including a process for addressing member complaints;
- iii. a code of conduct, including a policy to manage conflicts of interest;
- iv. a risk management framework (as may be applicable to the CAP);
- v. a framework for the regular review of the performance of service providers, including investment managers (with articulated performance criteria); and
- vi. a process for the regular review of the governance process.

<sup>3</sup> For registration of a pension plan under the *Income Tax Act*, a condition is that "the primary purpose of the plan is to provide periodic payments to individuals after retirement and until death in respect of their service as employees" (*section 8502(a) Income Tax Regulations*).

### 2.1.3 Automatic Features

The CAP sponsor may consider whether to establish one or more automatic features. Depending on the purpose of the CAP, there may be benefits to the inclusion of automatic features, such as (i) increased participation in a plan, (ii) early and greater contributions, and (iii) appropriate investment selection, which may lead to greater positive member outcomes.

These automatic features may include:

- i. automatic enrollment;
- ii. automatic escalation of CAP member contributions;
- iii. automatic rebalancing of investments;
- iv. default electronic communication;
- v. default investment options; and
- vi. default elections at termination of employment and retirement.

The automatic features within the CAP should be disclosed to CAP members upon enrollment in, or amendment to, the plan with the ability to opt-out if applicable. Where an automatic feature will have a direct impact on a member, reasonable advance notice should be provided where possible.

### 2.1.4 Deciding whether to use Service Providers

The CAP sponsor should decide if it has the necessary knowledge and skills to carry out the responsibilities set out in this guideline and to comply with all relevant legal requirements. Where the CAP sponsor does not have the necessary knowledge and skills to carry out certain tasks or functions within its responsibilities, service providers should be used.

Where the CAP sponsor chooses to engage a service provider for certain tasks or functions, the CAP sponsor retains the ultimate responsibility for maintaining and overseeing the CAP, including reviewing the performance of those service providers (more information on this is provided in [Section 6: Maintaining Oversight of a CAP](#)).

### 2.1.5 Selecting Service Providers

After considering its specific needs, the CAP sponsor should establish criteria for the selection of service providers and use these to select any service providers it engages.

Factors for the CAP sponsor to consider when establishing criteria for selecting (or changing) service providers include:

- i. potential conflicts of interest;
- ii. reputation;
- iii. professional qualifications or designations;
- iv. historical and expected stability of the service provider team;
- v. experience;
- vi. specialization in the type of service to be provided;
- vii. controls in place to secure CAP members' personal data;



- viii. consistency of service offered in all geographical areas in which members reside;
- ix. quality, level and continuity of services offered;
- x. competitiveness and reasonableness of the cost of services provided; and
- xi. appropriate level of access to information from the service provider to allow the CAP sponsor to meet CAP member disclosure requirements as outlined in this guideline.

Where the CAP sponsor delegates tasks or functions to a service provider, the CAP sponsor should ensure that the applicable roles and responsibilities of the CAP sponsor and service provider are documented.

## 2.2 INVESTMENT OPTIONS

### 2.2.1 Selecting Investment Options

The CAP sponsor should select investment options to be made available in the plan. The investment options for CAPs may be limited by legislation. CAP sponsors must comply with all applicable legal requirements when choosing investment options.

Examples of investment options include:

- investment funds;
- guaranteed investment certificates (GICs);
- guaranteed term or lifetime annuity contracts;
- employer securities; and
- other securities.

Factors a CAP sponsor should consider when choosing investment options, including any default investment option that may be selected by the CAP sponsor (see [Section 2.2.4](#)), include the:

- i. purpose of the CAP and its intended member outcomes;
- ii. number of investment options to be made available;
- iii. risk return profile associated with the investment options;
- iv. competitiveness and reasonability of fees associated with the investment options, and whether those fees provide value for CAP members;
- v. CAP sponsor's ability to assess and review the options initially and on a periodic basis;
- vi. demographics and observed behaviors of CAP members;
- vii. degree of diversification among the investment options; and
- viii. liquidity of the investment options.

The CAP sponsor is responsible for monitoring the ongoing performance of each investment option in the plan and reviewing the appropriateness of the investment option line-up, including the default investment options (see [Section 6: Maintaining Oversight of a CAP](#)).

In determining the investment option line-up design, the CAP sponsor should consider that the more investment options that are available, the greater the governance burden will be on the CAP sponsor in their oversight of these options and the more complex member

decision-making will be.

### **2.2.2 Selecting Investment Funds**

When the investment options chosen by the CAP sponsor include investment funds, the following factors should also be considered when selecting the funds that are to be made available:

- i. the attributes of the investment funds such as the investment objectives, investment strategies, investment risks and historical and expected performance;
- ii. the investment manager's investment and risk management processes;
- iii. the criteria outlined for the selection of service providers (see [Section 2.1.5 Selecting Service Providers](#)) should be applied in the selection of the investment manager(s) or service provider of the investment funds; and
- iv. the competitiveness and reasonableness of fees relative to the investment fund's expected risk and return profile.

### **2.2.3 Transfers Among Investment Options**

CAP members should be allowed reasonable opportunities to transfer among the investment options available in the plan. Any administrative costs incurred in making the transfer may be charged to members initiating the transfer, if the contract provides for it, and should be communicated to members in advance of incurring the charge whenever possible.

### **2.2.4 Policy Regarding Failure to Make Investment Choice**

Given that CAP members bear the investment risk when participating in a CAP, they should utilize the education materials and tools the CAP sponsor provides, to make their own investment choices from the options available. However, the CAP sponsor should establish a policy that outlines what happens if a CAP member does not make an investment choice within a specified period of time and should describe the default investment option that will be applied to the member's assets if the member does not make a choice. The policy should be disclosed to the CAP member, when possible, before any action is required.

Factors CAP sponsors should consider in establishing the default investment option (or default option):

- i. the purpose of the CAP and intended member outcomes;
- ii. the level of risk associated with the default option;
- iii. the competitiveness and reasonability of fees associated with the default option, and whether those fees provide value for CAP members;
- iv. the demographics and observed behavior of CAP members;
- v. the degree of diversification provided by the default option; and
- vi. the liquidity of the default option.

The investment strategy of the default option should be aligned with the time horizon and purpose of the CAP. The CAP sponsor should consider a default option that could be suitable as the core of a member's investments, not just in the context of an absence of member investment choice.

### 2.3 MAINTENANCE AND RETENTION OF RECORDS

The CAP sponsor should prepare and maintain the CAP records related to the member accounts and the administration and governance processes of the CAP, either internally or through a service provider. The CAP sponsor should consider controls necessary to secure CAP members' personal data.

The CAP sponsor should also establish a record retention policy for the plan. The contents of a record retention policy should include:

- a description of the types of records to be retained;
- how the records will be retained and secured; and
- how long various types of records should be retained.

## SECTION 3: EDUCATING MEMBERS ABOUT THE CAPITAL ACCUMULATION PLAN

The CAP sponsor should adopt an ongoing member education strategy that is geared towards the purpose and intended outcome of the CAP and designed to improve member decisions and outcomes. For CAPs with a retirement savings/income focus, CAP sponsors are encouraged to adopt practices that will help members understand the retirement income their projected individual account balance is likely to provide.

CAP members' varying levels of financial literacy and engagement, financial capacity to save, and ability to access information and technology are all factors that contribute to the challenges members face in engaging with their CAP and making informed decisions.

The relatively high degree of trust that exists between members and the CAP sponsor can be valuable when seeking to engage members. As such, the CAP sponsor is encouraged to engage members in an ongoing education process. The CAP sponsor could also consider incorporating processes such as sending materials from their internal communication channels or incorporating branding into communication activities.

The CAP sponsors should periodically review the effectiveness of the CAP's education strategy, materials, resources, and tools, using criteria that are consistent with the purpose and intended outcomes of the CAP.

Member communication and education considerations in this and subsequent sections are not limited to a member's initial enrollment but should be considered as part of the CAP's education strategy.

### 3.1 GENERAL

#### 3.1.1 Information on the Nature and Features of the CAP

When an individual becomes eligible to enroll in a CAP, as well as on an ongoing basis, the CAP sponsor should provide, or provide access to, current information regarding the purpose of the CAP, its intended outcomes, features, and how members can positively impact their own potential outcomes.

The information provided or made available to CAP members where applicable, should include, but not be limited to:

- i. enrolment information, including as applicable:
  - a. how and when to enroll;
  - b. any eligibility waiting period;
  - c. the benefits of not delaying enrollment;
  - d. how to opt out of the plan;
  - e. the rules/opportunities for enrolling at a later date if the individual opted out; and
  - f. the rules/opportunities for re-enrolling if an individual has previously terminated

- membership.
- ii. contribution levels and/or options and other contribution features, if any, including opportunities to obtain matching contributions or to make voluntary contributions;
- iii. automatic features, if any;
- iv. ability to transfer assets from other plans into the CAP;
- v. investment options available, including the intended objective and risk profile associated with each investment option;
- vi. communicating the requirement for CAP member to choose among the investment options;
- vii. ability and process around choosing and changing investment options, including timing of changes, restrictions including nature thereof, and any applicable fees;
- viii. the default investment option and its risk profile and intended objective;
- ix. how to access investment information and other decision-making tools;
- x. description of how fees may impact member potential outcomes;
- xi. how to terminate membership;
- xii. the retirement income options available within the CAP (as applicable);
- xiii. explanation of how to transfer money to products outside of the CAP;
- xiv. contact information of service providers with whom CAP members interact, if applicable; and
- xv. how and when members will receive communication or notice of availability of information about their accounts.

CAP information, education resources and tools discussed in this guideline should generally be made available to CAP members. CAP sponsors should consider promoting the use of certain sets of related education material at relevant times including plan specific deadlines. The CAP sponsor could consider customizing educational materials for segments of the membership that may share similar traits, such as those approaching retirement or those newly hired.

When communicating with plan members, CAP sponsors and service providers should strive to use plain language. All CAP sponsors may find the [CAPSA DCCP - Member Guide](#) a useful reference when developing or reviewing their member education strategy.

### 3.1.2 Outlining the Responsibilities of CAP Members

CAP members bear the investment risk inherent in a CAP and are expected to be involved in the management of their CAP account. To ensure that CAP members understand the CAP and their critical role in it, the CAP sponsor should provide, or provide access to, information outlining CAP members' responsibilities under the CAP.

The key responsibilities of CAP members to be clearly communicated to CAP members include the need to, where applicable:

- i. join the plan;
- ii. understand the nature and features of the plan;
- iii. make contribution decisions, including how much to contribute and when;
- iv. invest their contributions and investment balances, making decisions among

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- the available investment options in the CAP;
- v. understand how the investment risk associated with their investment choices directly influence their potential outcomes;
- vi. have knowledge of the automatic or default features (e.g., investment options, contribution rates) and decide whether to accept application of these features;
- vii. use the education materials, resources, and decision-making tools the CAP sponsor provides;
- viii. read and retain their statement, and other records and communications provided or made available to them;
- ix. understand fees, expenses, penalties and related restrictions that may be applicable from time to time;
- x. inform themselves about how participation in the plan fits within the wider context of their personal financial situation, including tax implications particularly when invested in multiple plans;
- xi. obtain investment advice or financial planning advice from a qualified adviser, including regularly reviewing their investment selections, considering any changing life circumstances, how and how much to withdraw annually from retirement income, and which decumulation option(s), if applicable, will best suit the member's goals;
- xii. ensure the ongoing accuracy of their personal and contact information and beneficiary designations on file with the CAP sponsor and service provider; and
- xiii. select an appropriate option upon termination of active participation in the CAP, within the timeframe provided.

### 3.2 INVESTMENT OPTIONS

The CAP sponsor should provide, or make available to CAP members, sufficient detail about the investment options available in the plan so they can make informed decisions. This information should include:

- i. a description of the investment option including its name, type of investment and the investment objective;
- ii. a description of the risks associated with the investment option;
- iii. any investment restrictions or limitations associated with the investment option;
- iv. the fees and expenses associated with each investment option;
- v. if available, the historical performance of the investment option, the historical performance of an appropriate benchmark and a statement that past performance may not be repeated and is not necessarily indicative of future performance; and
- vi. if applicable, where a member can obtain more information about the investment option, including portfolio holdings and other detailed disclosure.

**3.2.1 Investment Funds**

For each investment fund made available as an investment option in the plan, the CAP sponsor should provide, or provide access to, the following additional information for CAP members:

- i. names of all investment management firms responsible for the day-to-day management of the fund assets;
- ii. the types of investments the fund may hold; and
- iii. the risk-return profile of the fund.

**3.2.2 Employer Securities**

When securities of the employer or a related party of the employer are permissible investments under the applicable legislation and are included as an investment option in the plan, the CAP sponsor should provide the following additional information to CAP members:

- i. the relationship between issuer and employer if the issuer of the security is different from the employer of the CAP members, and a description of the relationship between the issuer and the employer;
- ii. the risks associated with investing in a single security; and
- iii. the risks associated with both being employed by an employer and investing in its, or a related party's, securities.

**3.3 TRANSFERS BETWEEN INVESTMENT OPTIONS**

The CAP sponsor should provide, or provide access to, information for CAP members about how to make transfers between investment options. This information should include, but not be limited to:

- i. any required forms and where the member should send them;
- ii. the methods available for making transfers;
- iii. any costs that may be incurred for transferring among investment options;
- iv. any restrictions or implications with the number of transfers among investment options a member is permitted to make within a given period;
- v. any specific account restrictions due to suspension of trading; and
- vi. the rules pertaining to any automatic transfers between investment funds that may be triggered (e.g., if the plan offers auto-rebalancing or auto-transfer in lifecycle funds).

Details of the rationale and the transfer restrictions associated with the suspension of trading in the investment options should be provided or made available before the suspension occurs (where reasonably possible).

**3.4 DESCRIPTION OF FEES AND EXPENSES**

Members should be provided with information regarding the level of fees and expenses payable by the member or through the member's account, including asset-based fees and operating expenses that are payable with respect to each investment option.

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This information should be provided or made available upon the introduction of the CAP, when there is a material change to the fees and expenses, and at least annually thereafter. Fee and expense information is relevant for CAP members when comparing in-plan investment options relative to other opportunities outside of the CAP.

The types of fees associated with the member account and their activities in a CAP may include:

- i. transaction fees incurred when investments are bought, sold/redeemed or transferred;
- ii. costs associated with accessing or using any of the investment information or decision-making tools or investment advice the CAP sponsor arranges;
- iii. investment management fees;
- iv. operating expenses, generally including fund costs associated with administration, audit, legal, custody, financial statement and other reporting, filings, taxes, and transfer agency fees; and
- v. service provider fees and expenses, including account, trustee, brokerage, custodial, record keeping fees and fees for other services from service providers.

Fee and expense information should be provided in plain language. It should include descriptions of the services provided for those fees and expenses as well as the long-term impact that fees and expenses may have on the member's individual account balance and their potential retirement income (where applicable). In considering fees, CAP members should review the level of fees compared to the service provided.

Details should be provided where the additional detail would impact member decision-making. Fees and expenses that are incurred by members by virtue of member choices (e.g., transfer fees, additional investment information or tools, excessive trading) should be disclosed separately. Any flat fees charged to the members should also be shown separately. Investment fund management fees and operating expenses, which are normally included in the management expense ratio can be disclosed in aggregate. Service provider fees similarly charged as a percentage of assets may be aggregated with the investment fund management expense ratio.

The CAP sponsor should work with the service provider to determine how best to present the fee information to ensure it is clear and understandable to members.

### 3.5 ADDITIONAL INFORMATION

The CAP sponsor should provide the CAP members with an outline of how they can access additional information related to the plan and a description of the type of information that is available.



## SECTION 4: DECISION-MAKING TOOLS AND INVESTMENT ADVICE FOR CAP MEMBERS

The CAP sponsor should provide, or provide access to, investment information and decision-making tools to assist CAP members in determining and achieving their desired outcomes, including how to invest their CAP assets, and how much and when to contribute to the CAP (as applicable).

### 4.1 GENERAL

To decide what investment information and decision-making tools to provide or make available to CAP members, and how and when they should be provided or made available, the CAP sponsor should consider:

- i. the purpose, type and particular features of the CAP;
- ii. the investment and other decisions CAP members must make;
- iii. the cost of the investment information and decision-making tools;
- iv. the location, financial literacy and demographics of the CAP members;
- v. the extent of CAP members' access to, and familiarity with, computers, mobile devices, and the internet; and
- vi. any applicable legal requirements concerning decision-making tools or disclosure of information to CAP members.

The investment information and decision-making tools the CAP sponsor provides, or makes available, need not address the entire financial circumstances and planning needs of the CAP members. However, the CAP sponsor may consider tools that capture members' other personal savings and/or government benefits to provide members with a holistic picture of their potential income at retirement.

### 4.2 INVESTMENT INFORMATION

The CAP sponsor should provide, or provide access to, investment information to assist CAP members in making investment decisions within the plan.

Examples of investment information include,

- i. glossary of terms used;
- ii. information regarding the relative level of expected risk and return associated with different investment options and funds, including a description of guarantees of the investment options;
- iii. information on asset allocation, building and rebalancing portfolios, and the importance of compounding returns and time horizon;
- iv. description of the default investment option;
- v. performance reports for any investment funds and other investment options offered in the CAP; and
- vi. fees and expenses associated with each investment option.

### 4.3 DECISION-MAKING TOOLS

The CAP sponsor should consider providing access to the following decision-making tools:

- i. investor profile questionnaires or other tools to assist in investment option selection;
- ii. asset allocation tools, which allow for a combination of investment options and understanding of the allocation's consistency with the member's investor profile;
- iii. retirement planning tools, if applicable, including tools that assist members in estimating their potential living and lifestyle expenses in retirement; and,
- iv. calculators and projection tools to help members assess the impact of each of the following on their potential individual account balance and the resulting potential retirement income (as applicable to the CAP):
  - a. contribution level and timing options;
  - b. withdrawals;
  - c. investment returns; and
  - d. the level of fees and expenses.

#### 4.3.1 Investment Projections and Assumptions

The calculations within many of the decision-making tools that provide future projections require assumptions. CAP sponsors or their service providers should ensure that the process for setting assumptions is prudent and should periodically review the assumptions and/or modelled output for reasonability. CAP sponsors or their service providers should disclose assumptions to plan members.

Disclosures should describe how outcomes are affected if different assumptions are used. If estimates are provided to plan members, disclosures should indicate that actual results will differ. Showing a range of results based on varying assumptions may be appropriate to convey the risk and variability around the estimates.

### 4.4 INVESTMENT AND FINANCIAL PLANNING ADVICE

In addition to providing or making available investment information and decision-making tools, a CAP sponsor may consider whether to enter into an arrangement with or refer CAP members to one or more service providers who are appropriately qualified to provide investment or financial planning advice and who can assist CAP members in deciding how to invest their CAP assets.

If the CAP sponsor enters into such an arrangement, it should clearly communicate to CAP members the nature of the advice from the service provider, how the advisor is compensated and who is paying for their services. This should include any limitations respecting the service provider's mandate or scope of services, and include any real or perceived conflicts of interest or lack of independence arising from the CAP sponsor's involvement in selecting, retaining and/or compensating the service provider.

Where the CAP sponsor does not enter into such an arrangement, the CAP sponsor may consider providing, or providing access to, information for CAP members on how to find the

right financial advisor for them, such as the Financial Consumer Agency of Canada's guide on [Choosing A Financial Advisor](#).

#### **4.4.1 Selecting Service Providers to Provide Investment or Financial Planning Advice**

As with the selection of all service providers, the CAP sponsor should use care in selecting investment advisors or financial planners, including but not limited to, developing criteria for their selection and selecting them in accordance with such criteria.

Factors the CAP sponsor may consider when establishing criteria for selecting service providers to provide investment advice or financial planning services to members include:

- i. the criteria used to select service providers generally (see [Section 2.1.5 Selecting Service Providers](#));
- ii. any conflict of interest or real or perceived lack of independence of the service provider relative to other plan service providers, the CAP sponsor and its members that may impact the investment advice or other services provided;
- iii. the availability of an asset allocation or financial planning model, and the existence of processes for ensuring the on-going reasonableness of the model's underlying assumptions;
- iv. any qualifications, such as registrations and/or proficiency requirements, that individuals and/or their firms must meet before they can provide investment advice or financial planning services, including the use of financial advisor and financial planner titles, as applicable;
- v. knowledge of CAPs and related tax and regulatory requirements, as applicable;
- vi. the requirement to protect the security of CAP members' personal data;
- vii. the level and competitiveness of fees charged for services provided, and which fees are paid by the member; and
- viii. any commissions or other incentives that the service provider may obtain from the CAP members' investment in certain options.

## SECTION 5: ONGOING COMMUNICATION TO CAP MEMBERS

CAP member communication activities should be geared toward the outcome intended by the CAP. The CAP sponsor should regularly provide, or provide access to, information on the CAP members' accounts and the performance of the investment options available in the plan. The CAP sponsor should also provide, or provide access to, additional information upon the request of members.

### 5.1 MEMBER STATEMENTS

The CAP sponsor should provide, or provide CAP members access to, a statement of their CAP account at least annually or as prescribed in legislation. The frequency at which statements should be provided or made accessible may be based on the types of investment options available in the CAP. Paper copies of the statement should be available to members upon request if another format is standard.

Member statements should be organized for clarity of content. For a CAP with a retirement focus, member statements should help members understand their level of savings and projected income in retirement.

The member statement should include, but not be limited to:

- i. a summary of investments, and the total value of the member account invested in each investment option;
- ii. the allocation of contributions invested in the chosen investment option(s);
- iii. a summary of investment activity for the statement period – opening balance, contributions by contributor (member and/or employer), by type (required, voluntary, and/or matching) and a reporting of any withdrawals, transfers-in, transfers-out, net change in the value of the account and closing balance of the account;
- iv. notice of any upcoming requirement or ability for a CAP member to commence retirement income, where applicable;
- v. minimum and maximum permitted withdrawal amounts for the following year, where applicable;
- vi. the CAP member's personal rate of return<sup>4</sup>; and
- vii. information regarding the total level of fees and expenses payable by the member or through the member's account with respect to each investment option elected by the member, and where to locate the fees and expenses with respect to other investment options available but not currently selected by the member.

<sup>4</sup> If a statement includes a personal rate of return for CAP members, the method used to produce the calculation should be described, along with information about where the members can get a more detailed explanation of the calculation (if it is not shown on the statement). A personal rate of return should be net of any applicable fees and expenses and should be clearly distinguished from any rate of return of an investment option disclosed in the statement.

## 5.2 OTHER INFORMATION

### 5.2.1 Access to Additional Information

Unless appearing in the CAP member statement, the CAP sponsor should provide or make available, additional information regarding the CAP member's CAP account including details of:

- i. investment options available in the CAP, including how to obtain characteristics of the investment option, holdings of the investment option and other disclosure information, if applicable;
- ii. transactions: date of transaction, transaction type (e.g., inter-fund transfer), amount, unit value, units purchased or withdrawn;
- iii. characteristics of guaranteed investment and other fixed term investment options, such as term of the investment, date of maturity, interest rate, and exposure to market risk;
- iv. projections and estimates, if provided, and their key assumptions;
- v. any additional breakdown of fees and expenses (see [Section 3.4 Description of Fees and Expenses](#));
- vi. information on transfer options (see [Section 3.3 Transfers Between Investment Options](#)); and
- vii. an explanation or demonstration of the impact that fees and expected returns have on the member's long-term saving and retirement income.

### 5.2.2 Report on Material Changes

The CAP sponsor should provide advance notice to CAP members of any material change in the CAP's purpose, features and/or investment options.

The notice of change should include, but not be limited to:

- i. the effective date of the change;
- ii. a brief description of and the reasons for the change;
- iii. how the change could affect CAP members' holdings in the CAP (e.g., how the change may affect the level of contributions or whether the change impacts the risk profile of a particular investment option);
- iv. the manner in which assets will be allocated or transferred to a new investment option (where applicable);
- v. details of what CAP members must do (if action is required) and the consequences of not taking action;
- vi. details of any transaction fees or market value adjustments that may apply to the change;
- vii. a summary of the tax consequences that may arise as a result of the change;
- viii. how to get more detailed information about the change; and
- ix. a reminder to CAP members to evaluate the impact of the change on their CAP, CAP strategy and personal financial situation.

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Material changes in investment options are the changes that would be considered important by a reasonable investor in determining whether to purchase, sell/redeem or continue to hold the investment, which include the following:

- i. a change to the nature of an investment option, including a change to the asset mix or investment strategy;
- ii. a change in the operation of an investment option including a change in the investment manager;
- iii. an addition or removal, with or without replacement, of an investment fund or other option;
- iv. a change in the level of fees and expected expenses associated with an investment option or ongoing administration and record keeping paid by CAP members; and
- v. a change of a significant service provider to the CAP.

### 5.3 PERFORMANCE REPORTS FOR INVESTMENT OPTIONS

The CAP sponsor should provide or provide access to performance reports for each investment option in the CAP to members.

Each performance report should include, where applicable:

- i. the name of the investment fund for which performance is being reported;
- ii. the returns, name and description of the benchmark against which the investment fund's performance is measured, if applicable;
- iii. the performance of the fund over one, three, five and ten years to the extent available and applicable and/or the current and effective yields for money market investment funds;
- iv. whether the investment performance is gross or net of investment management fees and fund operating expenses (the same basis should be used for all investment options made available in the CAP);
- v. a description of the method used to calculate the fund performance, along with information on where to find a more detailed explanation; and
- vi. a statement that past performance may not be repeated and is not necessarily indicative of future performance.

The investment performance report provided, or made accessible, for each investment fund should be updated at least annually, and be consistent with the prevailing market practice for that type of fund.

## SECTION 6: MAINTAINING OVERSIGHT OF A CAP

The CAP sponsor should periodically review all plan features, the service providers it engages, investment options available in the plan (including fees), records maintenance, member education and decision-making tools provided to members. The CAP sponsor should set the criteria and the frequency of the review (and/or triggering events to cause a review) of the various aspects of the CAP as outlined below. The CAP sponsor should consider any member feedback and complaints received as part of the review.

### 6.1 REVIEWING PLAN AND GOVERNANCE FRAMEWORK

The CAP sponsor may periodically review the CAP's features to determine if they continue to meet the purpose and objectives of the CAP. As part of the CAP sponsor's review, they may look to:

- i. CAP members' satisfaction and observed behavior;
- ii. observed and projected outcomes the CAP is achieving;
- iii. new plan features in the marketplace;
- iv. the retirement income options available within the CAP, if applicable; and
- v. the appropriateness of current or alternative plan features to CAP members.

The CAP sponsor should periodically review its governance process, and in doing so consider this guideline to ensure that it is fulfilling its roles and responsibilities in providing the CAP.

### 6.2 REVIEWING FEES AND EXPENSES

The CAP sponsor should periodically review all member-borne fees and expenses for reasonability and competitiveness. The CAP sponsor is in a unique position to ask questions to obtain the information needed for effective decision-making, by both the CAP sponsor and the CAP member.

The CAP sponsor should consider the following, when reviewing fees and expenses:

- i. requesting a description and breakdown of the different categories of all member-borne fees;
- ii. comparing the fees and expenses across service providers/ investment options to determine whether they are reflective of the going market rate (e.g., by periodically going to market or benchmarking);
- iii. looking for opportunities to leverage possible economies of scale that may be realized (e.g., from the negotiation of fees and expenses for the CAP in conjunction with other CAP or non-CAP benefits plans that may be offered by the CAP sponsor);
- iv. assessing the impact that the fees and expenses have over the long-term on CAP members' savings and retirement income, where applicable; and
- v. assessing whether fees and expenses provide value for plan members including, but not limited to, net investment return, quality of education or other services.

CAPSA Guideline No. 3  
Guideline for Capital Accumulation Plans

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While low costs are important, so too are the services, member education tools and investment strategies that often accompany higher cost options. These higher cost options may lead to better overall outcomes, given the unique characteristics and needs of the CAP members.

The assessment of whether fees and expenses are delivering value for plan members will involve reviewing the performance of each of the CAP's service providers, investment options and funds, and its member education and decision-making tools.

The CAP sponsor may consider obtaining the assistance of an independent service provider in reviewing the CAP's member-borne fees and expenses.

### 6.3 REVIEWING SERVICE PROVIDERS

The CAP sponsor should periodically review the performance of its service providers, including those providing financial planning or investment advice.

In establishing criteria for the periodic review of service providers, CAP sponsors should consider:

- i. evolving CAP requirements;
- ii. updating the criteria to reflect the current marketplace, including fees and range of services available;
- iii. including a performance assessment of the service provider and the quality of its product or service;
- iv. reassessing any perceived or actual conflicts of interest; and
- v. assessing the CAP sponsor's satisfaction and CAP members' satisfaction regarding services rendered by the service provider.

### 6.4 REVIEWING INVESTMENT OPTIONS AND FUNDS

The CAP sponsor should periodically, and at least annually, review the performance of each investment option and fund in the plan. The CAP sponsor should review the appropriateness of the default option and the appropriateness of the plan's aggregate investment line-up, taking into account the characteristics of plan membership and the levels of member engagement and financial literacy.

In establishing criteria for the periodic review of each investment option and fund, the CAP sponsor should ensure the investments continue to meet the criteria used in its selection and consider:

- i. updating the criteria to reflect changes in the marketplace;
- ii. including a performance assessment, relative to its benchmark, as applicable, over various time periods;
- iii. assessing whether the amount of fees associated with the investment options are reasonable and achieve value for plan members given the actual and expected investment performance;
- iv. ensuring that risks, returns, and characteristics of the investment options are aligned with



- expectations;
- v. the impact of any changes to the investment manager's firm, team, or investment strategy; and
- vi. members' investment behavior and usage of the investment fund.

## 6.5 REVIEWING MEMBER EDUCATION AND DECISION-MAKING TOOLS

The CAP sponsor should periodically review the effectiveness and appropriateness of the CAP's education materials, education strategy, investment information and decision-making tools.

In establishing criteria for the periodic review of the information and decision-making tools, CAP sponsors should include the:

- i. types of decisions members must make;
- ii. reasonability of underlying assumptions and/or modelled output within the current market environment;
- iii. cost relative to the value and/or usage or effectiveness of the tool or service;
- iv. observed patterns of investment behavior of the members;
- v. observed and projected outcomes the CAP is achieving for members; and
- vi. members' satisfaction with the information and tools.

## 6.6 REVIEWING MAINTENANCE OF RECORDS

The CAP sponsor should periodically review their record retention policy and how well the plan's records are maintained.

The review may include:

- i. reviewing errors identified in the records; and
- ii. reviewing the appropriateness of the controls, processes and systems employed.

The CAP sponsor should ensure that record retention policies comply with all applicable legislation governing record retention and protection of personal information.

The CAP sponsor should take steps to maintain the accuracy of member records, by employing a process to locate any CAP members who are considered missing or for whom it does not have current contact information and to document changes received from CAP members. Depending on the nature of the CAP, CAP sponsors may find it useful to reference the [CAPSA Guideline No. 9 Searching for Un-locatable Members of a Pension Plan](#).

## SECTION 7: COMMUNICATION TO CAP MEMBERS ON TERMINATION OF ACTIVE PARTICIPATION

The termination of a CAP member's active participation (e.g., termination of employment, retirement, or death), in the CAP should be done in accordance with the terms of the plan and any applicable legal requirements. It is important to note that while a CAP member's employment relationship with the CAP sponsor may end, the individual may remain a member of the CAP for some time thereafter. The CAP sponsor maintains responsibilities toward the former CAP member for as long as they still have assets held in their individual account under the CAP.

If a CAP member terminates active participation in the plan, the CAP sponsor should provide the member or the member's survivor/beneficiary with information, as applicable, based on the nature of the CAP, such as:

- i. the ability to remain in the plan, as required or permitted by legislation or by plan rules;
- ii. any requirement to move to an alternate plan;
- iii. any requirement to receive income from the plan;
- iv. an explanation of how to transfer money to products outside of the CAP;
- v. an explanation of the fees and expenses if the funds remain in the CAP itself or with the plan's existing fundholder;
- vi. any actions the member or the member's survivor/beneficiary must take;
- vii. any deadlines for action by the member or the member's survivor/beneficiary;
- viii. the manner in which assets will be liquidated or distributed;
- ix. any default options that may be applied if no action is taken;
- x. the impact that the termination of plan membership will have on each investment option; and
- xi. any tax consequences, market value adjustments, early withdrawal penalties or any other fees.

Certain types of CAPs provide members who have terminated active participation in the CAP with the option to receive retirement income directly from the CAP. Where this option is available, the CAP sponsor should provide the member with the following information, in addition to the information listed above, as applicable:

- i. explanation of the nature of each available option to receive retirement income from the CAP;
- ii. explanation of the investments associated with each retirement income option;
- iii. explanation of the type of ongoing communication that will be provided with each option; and
- iv. explanation of the fees and expenses associated with any retirement income option.

## SECTION 8: COMMUNICATION TO CAP MEMBERS ON TERMINATION OF A CAP

The termination of a CAP should be done in accordance with the terms of the plan and any applicable legal requirements or guidelines.

If a CAP sponsor is terminating the CAP, the CAP sponsor should promptly provide CAP members with the corresponding information as described in [Section 7: Communicating to CAP Members on Termination of Active Participation](#), as applicable. In addition, the CAP sponsor should also provide members with an explanation of the impact that the termination of the plan will have on each investment option.



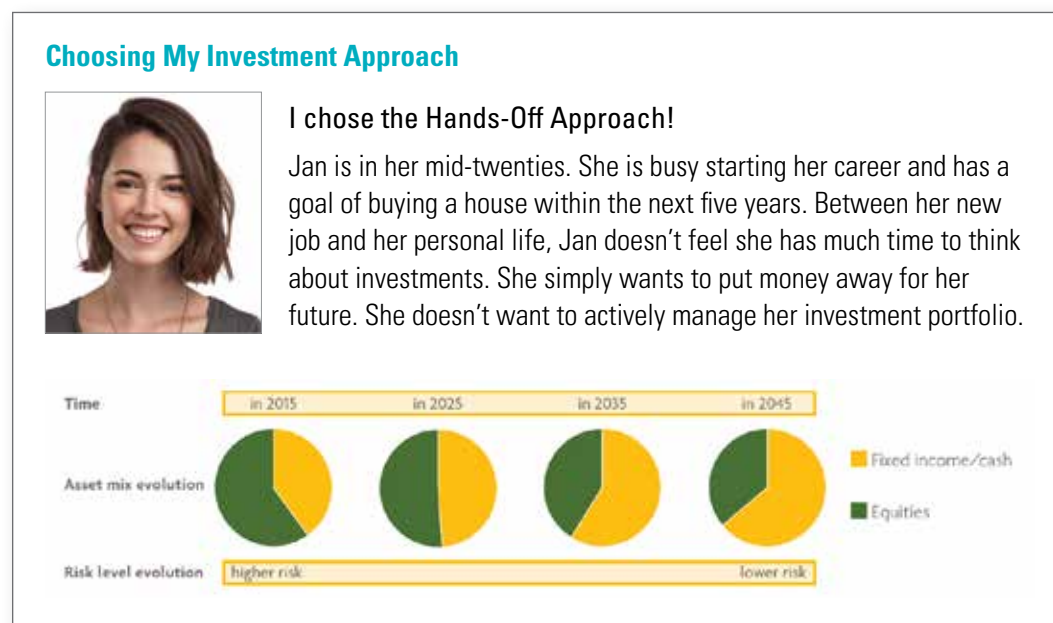
## Study Guide Module 2

**Pages BIA-15 to BIA-16 and BIA-21 to BIA-23**, Benefits in Action #1—“What should you know about your DC plan investment options before enrolling?” has updated page references for the “Apply Your Knowledge” questions. Remove the current pages BIA-15 to BIA-16 and BIA-21 to BIA-23 from your Study Guide and replace them with the new pages that follow.



Danielle summarized what they had discussed. ***"You'll need to read through the entire kit. Step one is to decide on the investment approach that is right for your plan investments, either "Hands-On" or "Hands-Off." If you choose to be 'Hands-Off,' you can consider the list of funds shown under that approach. If instead your choice was "Hands-On," you will go on to complete the investment questionnaire so that you have a guide for the framework of your own investment portfolio. At that point, you will be ready to review the information pages for each 'hands-on' investment option and choose your funds. Does that sound like a good plan of action to you?"***

Maureen picked up the guide, Choosing My Investment Approach, once more. ***"This example is much more useful than that page listing the returns of the 25 choices! I like how there are some real-life examples and the step-by-step process suggested for setting up my plan investments. Jan seems a lot like me."***



Maureen laughed. ***"I might even get to like this stuff! Later on, when I've been in the plan for a while, will I be able to make changes?"***

This was a more enthusiastic response than Danielle expected. ***"I'm glad to hear that! Of course, you can make investment changes later—All investment decisions are yours to make. I think that the steps you plan to follow will help with your decisions."*** Maureen nodded.

Danielle finished the meeting. ***"I would like to have your enrolment completed by April 24. Can we plan to get together again on the 23rd? You can bring your enrolment form back to me on that day. Then I can make sure AIC has all the necessary information about you so that your participation can start smoothly on May 1."***



## Apply Your Knowledge

As Canadian finance/human resources director, Danielle has a clear understanding of what she needs to communicate to employees before enrolling them in the DC pension plan. She also meets frequently with BC Preferred's pension advisor and is confident she knows the factors that were considered in designing their DC plan. Put on your plan sponsor hat and respond to these questions.

- 1. Explain why it is so important for BC Preferred to provide the investment information and decision-making tools to its employees before enrolling in the DC plan.** (Learning Outcome 1.16, Study Guide Module 1, p. 16; Reading A, Context for Employer-Sponsored Retirement Plan Fund Investment Management, Study Guide Module 1, pp. A-10 to A-11; Appendix 1, CAPSA Guideline No. 3, Guidelines for Capital Accumulation Plans (CAP Guidelines), Sections 1.3.1, p. 6)
- 2. Amalgamated Insurance Company is BC Preferred's fund holder. Identify the protection this affords to DC plan members like Maureen.** (Learning Outcome 1.10, Study Guide Module 1, p. 13; Reading C, CAPSA Guideline No. 5, Guideline on Fund Holder Arrangements, Study Guide Module 1, Section 2.4 Responsibilities of the Fundholder, Section 2.5 The Custodian and Section 2.5.1 Responsibilities of the Custodian, p. C-8)
- 3. Identify the key reasons BC Preferred has close to 25 investment options included in its DC pension plan.** (Appendix 1, CAPSA Guideline No. 3, Guidelines for Capital Accumulation Plans (CAP Guidelines), Section 2.2 Investment Options, Section 3.2.1 Investment Funds, and Section 4.2 Investment Information, pp. 11-12, 17 and 19)





## Answers to Apply Your Knowledge

As Canadian finance/human resources director, Danielle has a clear understanding of what she needs to communicate to employees before enrolling them in the DC pension plan. She also meets frequently with BC Preferred's pension advisor and is confident she knows the factors that were considered in designing their DC plan. Put on your plan sponsor hat and respond to these questions.

- 1. Explain why it is so important for BC Preferred to provide the investment information and decision-making tools to its employees before enrolling in the DC plan.** (Learning Outcome 1.16, Study Guide Module 1, p. 16; Reading A, Context for Employer-Sponsored Retirement Plan Fund Investment Management, Study Guide Module 1, pp. A-10 to A-11; Appendix 1, CAPSA Guideline No. 3, Guidelines for Capital Accumulation Plans (CAP Guidelines), Sections 1.3.1, p. 6)

In a DC pension plan such as BC Preferred's (which is a Capital Accumulation Plan, or CAP), individual plan members decide on their own personal asset mix. However, the CAP's governance committee makes decisions regarding investment options for the plan as a whole and the plan sponsor does assume some responsibility for plan member investment-related education and communication.

The benefit adequacy for each CAP member depends upon both the level of contributions to the plan and the level of investment performance achieved over the period of their membership.

While the CAP Guidelines do not have the force of law or regulation, they provide a set of best practices for the sponsor of a CAP. They include good governance principles in respect of the investment activities related to a CAP. Under the CAP Guidelines the CAP sponsor is responsible for providing investment information and decision making tools to CAP members.

**2. Amalgamated Insurance Company is BC Preferred's fund holder. Identify the protection this affords to DC plan members like Maureen.** (Learning Outcome 1.10, Study Guide Module 1, p. 13; Reading C, CAPSA Guideline No. 5, Guideline on Fund Holder Arrangements, Study Guide Module 1, Section 2.4 Responsibilities of the Fundholder, Section 2.5 The Custodian and Section 2.5.1 Responsibilities of the Custodian, p. C-8)

Good governance includes maintaining the separation of plan assets through a fund-holder agreement. The two basic types of fund holder arrangements are trusts and insurance contracts. While these are two different entities from the perspective of the regulators, the plan sponsor is expected to follow the same principles, including:

- (a) Holding assets exclusively for the pension plan
- (b) Holding assets separate and apart from the employer's assets
- (c) Holding assets separate and apart from the fund holder's assets, except as permitted by legislation
- (d) Investing assets in accordance with the plan's investment policies
- (e) Acting in a fiduciary role regarding the pension fund
- (f) Ensuring that the roles, duties, responsibilities and obligations of all parties providing services in respect of the pension fund are defined and understood.

Fund holder adherence to these principles ensures that BC Preferred is unable to access funds that support the pension plan and ultimately provides protection to the plan members that the pension fund will be available to provide plan benefits when needed.

**3. Identify the key reasons BC Preferred has close to 25 investment options included in its DC pension plan.**

(Appendix 1, CAPSA Guideline No. 3, Guidelines for Capital Accumulation Plans (CAP Guidelines), Section 2.2 Investment Options, Section 3.2.1 Investment Funds, and Section 4.2 Investment Information, pp. 11-12, 17 and 19)

A CAP sponsor is responsible for choosing the plan’s available investment options, and plan members are responsible for making choices among those options. The CAP Guidelines outline many factors to be considered by the CAP sponsor when choosing investment options to make available. These include the purpose of the CAP and the diversity of the employee group participating in the CAP.

BC Preferred employs two distinct groups of employees—experienced, skilled staff for salaried positions and younger, less experienced and less skilled staff for its production positions. Given these demographics, it is reasonable to assume that new salaried staff typically have already participated in some type of retirement savings program and have some investment knowledge, while their new hourly staff are much less “investment savvy.” The list of investment options has been tailored to reflect these two levels of investment knowledge.

Although there are close to 25 distinct funds in their lineup, eight represent a “suite” of target retirement date funds. These funds are intended to be attractive to employees who do not feel confident making investment decisions and prefer professional managers to decide on the mix of investments to hold. For employees who may have some investment experience, a choice is provided between active and passive investment management (i.e., indexed funds).



## Study Guide Module 5

**Pages BIA-13 to BIA-14 and BIA-21**, Benefits in Action #2—“How do we decide on the assets to include in our pension fund?” has updated page references for the “Apply Your Knowledge” questions. Remove the current pages BIA-13 to BIA-14 and BIA-21 from your Study Guide and replace them with the new pages that follow.



Michael was pleased with what he had heard from Shawna that morning. ***"I think you're going to make a great committee member. I know you said you had some questions on the DB assets. Maybe we can finish up and deal with all your questions tomorrow morning around the same time?"***



## Apply Your Knowledge

Michael, CFO of JHJ Industries, wants to ensure that Shawna, corporate accountant, has a solid understanding of the purpose and current state of both the defined benefit (DB) and defined contribution (DC) sections of the pension plan. Michael believes that Shawna needs a good foundation so that she can contribute to discussions of assets to be included in the pension fund. Put on your pension advisor hat and respond to these questions.

- 1. Outline information that Shawna was able to learn from her conversation with the CFO, the SIPP, and the DB and DC financial statements that will assist her in her role as a Management Committee member.** (Learning Outcomes 1.8, 1.12 and 1.13, Study Guide Module 1, pp. 13-15; Reading C, CAPSA Guideline No. 5: Guideline on Fund Holder Arrangements, Study Guide Module 1, pp. C-4 to C-9; Benefits in Action 2, Study Guide Module 5, pp. BIA-3 to BIA-12)
- 2. Explain how a review of CAPSA Guideline No. 5: Guideline on Fund Holder Arrangements along with a review of the AIC contract will help Shawna execute her role on the Management Committee.** (Reading C, CAPSA Guideline No. 5: Guideline on Fund Holder Arrangements, Study Guide Module 1, Section 2.3.1 Administrator Responsibilities Regarding the Pension Fund and Fund Holder, Section 2.3.2 Delegation of Duties by the Administrator, Section 2.3.3 Governance Matters Regarding the Pension Fund, pp. C-6 to C-7)
- 3. Explain why the asset allocation for the DC section of the fund is different than for the DB section.** (Appendix 1, CAPSA Guideline No. 3: Guidelines for Capital Accumulation Plans (CAP Guidelines), Sections 2.2.1 Selecting Investment Options and 2.2.2 Selecting Investment Funds, pp. 11-12)



**3. Explain why the asset allocation for the DC section of the fund is different than for the DB section.** (Appendix 1, *CAPSA Guideline No. 3: Guidelines for Capital Accumulation Plans* (CAP Guidelines), Sections 2.2.1 Selecting Investment Options and 2.2.2 Selecting Investment Funds, pp. 11-12)

The asset allocation in the DB component is consistent with the JHJ's president's general investment beliefs about the cost/benefit of a passive vs. active investment management approach. The current asset allocation also reflects the frozen status of the DB section of the plan. This fund is being managed to provide the static pension obligations. Equity and bond investments offer liability matching (i.e., provide a source of income in the form of dividends and bond interest payments that can be used to meet pension payments as they become due).

CAP Guidelines call for plan sponsors to take into consideration, among other things, the diversity and demographics of CAP members. The SIPP contains a statement identifying that not all plan members may want to manage their own investments in the DC section. As such, JHJ has chosen some investment options that require members to actively manage their CAP investments as well as another set of options that appear to be "managed" on the members' behalf (i.e., the balanced funds that are managed to reduce investment risk—aka, target retirement date funds). The second set of options is included to provide professional fund management for those members who do not wish to actively manage their DC account. For managers who want to actively manage their account, JHJ recognizes that there may be diversity within that group of members.



## Study Guide Module 8

**Pages 1 to 2, Assigned Reading:** Remove the current pages 1 to 2 from your Study Guide and replace them with the new pages that follow. Appendix 1 has been replaced.

**Pages 13 to 14, Learning Outcomes 3.3 to 3.6:** Remove the current pages 13 to 14 from your Study Guide and replace them with the new pages that follow. Learning Outcome 3.4 has been updated.

**Pages 21 to 23, Learning Outcomes 5.2 to 5.4:** Remove the current pages 21 to 23 from your Study Guide and replace them with the new pages that follow. Learning Outcomes and page references have been updated.

**Pages A-5 to A-6, Investment Regulations for Employer-Sponsored Retirement Plans:** Remove the current pages A-5 to A-6 from your Study Guide and replace them with the new pages that follow. Reading A has been updated.



# Complying With Legislative and Best Practices in Plan Asset Investment

## Module 8

Module 1 briefly introduced the investment cycles of defined benefit (DB) pension plans and capital accumulation plans (CAPs) as well as the broad pension governance environment in which the cycles operate. Modules 2 through 7 introduced the broad set of investment products that can comprise a registered retirement plan fund and basic concepts and theories for investment analysis and selection. The balance of the course examines practical applications. Modules 8 and 9 explore the investment-specific governance environment in more detail. Modules 10 and 11 examine considerations and issues flowing from plan sponsor decisions in each step in the investment cycles.

All employer-sponsored registered plans, whether pension plans, Group RRSPs or deferred profit-sharing plans (DPSPs), are subject to investment rules included in the Income Tax Act (ITA).

In addition, sponsors of registered pension plans (RPPs) must comply with investment rules under the pension standards legislation for the respective Canadian jurisdiction. Pension standards legislation in most Canadian jurisdictions incorporates the investment rules in place under the federal Pension Benefits Standards Act (PBSA); however, two provinces have written their own rules on investments. When a jurisdiction has not enacted pension standards legislation, as is the case in Prince Edward Island, Canada Revenue Agency requires that the federal PBSA investment rules be applied.

For registered pension plans, all jurisdictions apply the prudent person rule. The plan sponsor, the pension committee, the trustee or custodian, the appointed administrator and consulting professionals (e.g., the asset managers and investment advisors) may have a fiduciary responsibility to members of the plan.

Sponsors of “member choice” pension plans in some jurisdictions and nonpension registered plans (Group Registered Retirement Savings Plans and deferred profit-sharing plans) are not required to develop a statement of investment policies and procedures (SIPP). However, sponsors of those plans do hold fiduciary responsibilities regarding their plans. The Guideline for Capital Accumulation Plans (CAP Guidelines) issued by the Canadian Association of Pension Supervisory Authorities (CAPSA) outlines best practices for the investment of plan assets and can help sponsors meet those responsibilities. Documentation of information flowing from compliance with the CAP Guidelines can provide plan sponsors with similar information to that contained in a SIPP.

## Assigned Reading



### Reading A

Investment Regulations for Employer-Sponsored Retirement Plans, Study Guide Module 8, Pages A-1 to A-8

### Reading B

CAPSA Guideline No. 6, Pension Plan Prudent Investment Practices Guideline, Study Guide Module 8, Pages B-1 to B-9

### Reading C

CAPSA Self-Assessment Questionnaire on Prudent Investment Practices, Study Guide Module 8, Pages C-1 to C-22

### Reading D

Office of the Superintendent of Financial Institutions (OSFI), Guideline B-4, Securities Lending, Study Guide Module 8, Pages D-1 to D-4

### Appendix 1

CAPSA Guideline No. 3, Guidelines for Capital Accumulation Plans (CAP Guidelines), Sections 2.2.1 and 2.2.2, Pages 11-12

**3.3 Describe the “prudent person rule” as it typically applies to pension plan activities as outlined in CAPSA Guideline No. 6, Pension Plan Prudent Investment Practices Guideline.** (Reading A, Investment Regulations for Employer-Sponsored Retirement Plans, Study Guide Module 8, p. A-5, Reading B, CAPSA Guideline No. 6, Pension Plan Prudent Investment Practices Guideline, Study Guide Module 8, p. B-7)

When pension plan administrators and their appointed agents are undertaking investment activities, they are required by most Canadian jurisdictions to exercise the care, diligence and skill in the investment of a pension fund that a person of ordinary prudence would exercise in dealing with the property of another person. This is generally known as the “prudent person rule.” The prudent person rule is a substantive rule of law that is intended to lead to balanced decision making rather than dictate particular outcomes.

Application of the prudent person rule requires individuals with responsibility for managing a pension fund’s assets to do so in a professional manner with regard to the best interests of pension plan beneficiaries. In the pension investment context, a key element of the prudent person rule is that fiduciaries must exercise due diligence. This includes making decisions based on proper consideration of adequate information as well as documenting the final decisions, reasons for the decisions and the circumstances considered.

**3.4 Identify the nature of fiduciary responsibilities held by plan sponsors and service providers under a Group RRSP or a DPSP as outlined in CAPSA Guideline No. 3, Guidelines for Capital Accumulation Plans.** (Reading A, Investment Regulations for Employer-Sponsored Retirement Plans, Readings Commentary, Study Guide Module 8, p. A-6) CAPSA Guideline No. 3, Guideline for Capital Accumulation Plans (CAP Guidelines) are intended to assign and clarify the duties and responsibilities of service providers and plan sponsors (e.g., employers or unions) that offer their employees or members a plan that falls under the definition of CAP, including defined contribution (DC) pension plans, Group RRSPs and DPSPs with one thing in common—Employees or members make their own decisions about how to invest all or part of their contributions. These types of plans are collectively known as capital accumulation plans (CAPs).

The CAP Guidelines describe fiduciary responsibilities for all CAP sponsors and are perhaps most useful as guidance for sponsors of Group RRSPs and DPSPs, which are not subject to minimum pension standards legislation. According to the CAP Guidelines, sponsors of CAPs hold fiduciary responsibility for certain aspects of the plan’s design and operation. In broad terms, this fiduciary responsibility is the plan sponsor’s legal responsibility to watch over and act in the best interests of its plan members—whether in a formal pension plan or a less regulated Group RRSP or DPSP. “Acting in the best interests of plan members” means accountability for investment management, administration, registration and communication aspects of the plan, including situations when the actual delivery of these services could be from a third party.

**3.5 Explain the fiduciary standard of care required when the employer acts as plan administrator as outlined in CAPSA Guideline No. 6, Pension Plan Prudent Investment Practices Guideline.** (Reading B, CAPSA Guideline No. 6, Pension Plan Prudent Investment Practices Guideline, Study Guide Module 8, p. B-5)

For many pension plans, the administrator is the employer that is sponsoring the plan. In these situations, the employer is held to a fiduciary standard of care when acting as plan administrator. While the employer also retains certain rights and powers with respect to the pension plan when the employer acts as plan sponsor, while acting as the plan administrator, the employer is a fiduciary whose actions and decisions must consider the best interests of the pension plan's beneficiaries.

In the plan administrator role, the employer is responsible for ensuring the pension fund is administered and invested prudently in accordance with the investment policy/statement of investment policies and procedures (SIPP), other pension plan documents and applicable legislation.

**3.6 Outline the activities for which the plan sponsor is not held to a fiduciary standard of care in relation to the pension plan and the pension plan beneficiaries.** (Reading B, CAPSA Guideline No. 6, Pension Plan Prudent Investment Practices Guideline, Study Guide Module 8, pp. B-4 to B-5)

The plan sponsor is responsible for determining the design of the pension plan; setting the benefit structure for various classes of members; and establishing, amending or terminating the pension plan. The plan sponsor is also responsible for determining the level and nature of pension benefits. During these activities, the plan sponsor is not held to a fiduciary standard of care in relation to the pension plan and the pension plan beneficiaries.

The roles and responsibilities of the plan sponsor are very different from those of the plan administrator. In the plan sponsor role, the employer is entitled to act in its own best interests but may be subject to an implied duty of good faith.



## Learning Outcome

Identify prudent investment practices applicable to capital accumulation plans (CAPs).



# 5

### **5.1 Describe how pension standards regulators deal with the requirement for prudence in the context of “member choice” plans when SIPPs are often not required.**

(Reading A, Investment Regulations for Employer-Sponsored Retirement Plans, Study Guide Module 8, p. A-6)

Some jurisdictions no longer require SIPPs in the case of “member choice” accounts. However, legislation in some of those jurisdictions prescribes the nature of the investment options that should be offered to plan members, usually confirming the need for prudence in this activity. For example, the federal PBSA requires that a “member choice” plan must offer investment options of varying degrees of risk that would allow a reasonable and prudent person to create a portfolio of investments that is well-adapted to their retirement needs. A plan administrator who meets this requirement and other requirements of the regulations is deemed to meet the stated prudent person standard of care for investing plan assets. Alberta, British Columbia, Manitoba and Quebec take a similar approach within their pension standards legislation.

**5.2 Identify factors CAP sponsors consider when choosing investment options, including any default option that may be selected by the CAP sponsor as outlined in the CAP Guidelines.** (Appendix 1, CAPSA Guideline No. 3, Guidelines for Capital Accumulation Plans (CAP Guidelines), p. 11)

Factors outlined in the CAP Guidelines for CAP sponsors to consider when choosing investment options, including any default investment option, include the:

- (a) Purpose of the CAP and its intended member outcomes
- (b) Number of investment options to be made available
- (c) Risk return profile associated with the investment options
- (d) Competitiveness and reasonability of fees associated with the investment options as well as whether those fees provide value for CAP members
- (e) CAP sponsor's ability to assess and review the options initially and on a periodic basis
- (f) Demographics and observed behaviors of CAP members
- (g) Degree of diversification among the investment options
- (h) Liquidity of the investment options.

**5.3 Identify the types of investment options for CAP sponsors to consider including in a CAP as outlined in the CAP Guidelines.** (Appendix 1, CAPSA Guideline No. 3, Guidelines for Capital Accumulation Plans (CAP Guidelines), p. 11)

The CAP Guidelines identify investment funds, guaranteed investment certificates (GICs), guaranteed term or lifetime annuity contracts, employer securities and other securities as types of investment options a CAP sponsor can include in a CAP.

**5.4 Identify factors CAP sponsors consider when choosing investment options if one of the options chosen includes an investment fund as outlined in the CAP Guidelines.**

(Appendix 1, CAPSA Guideline No. 3, Guidelines for Capital Accumulation Plans (CAP Guidelines), p. 12)

If the investment options chosen by the CAP sponsor include investment funds, the CAP Guidelines suggest that the following factors should also be considered when selecting the funds that are to be made available.

- (a) The attributes of the investment funds such as investment objectives, investment strategies, investment risks, and historical and expected performance
- (b) The investment manager's investment and risk management processes
- (c) The criteria outlined for the selection of service providers should be applied in the selection of the investment manager(s) or service provider of the investment funds.
- (d) The competitiveness and reasonableness of fees relative to the investment fund's expected risk and return profile



## Self-Dealing Rules

For federally regulated plans and those in jurisdictions that have adopted the federal investment rules, related party transactions, including loans to employees, are prohibited unless:

- (a) The transaction is required for the operation of the plan, and its terms and conditions are not less favourable than market terms and conditions, or
- (b) The value of the transaction is nominal, or the transaction is immaterial to the plan.

It is also allowable for a plan administrator to invest in the securities of a related party if the securities are held in an investment fund or segregated fund in which investors other than the administrator and its affiliates may invest and that complies with certain prescribed quantitative limits.

New Brunswick and Quebec also have regulations relating to the ability of related parties to obtain a loan from a pension fund, and New Brunswick has rules to deal with securities lending.

## Fiduciary Relationships, Responsibilities and Prudence

### Registered Pension Plans (RPPs)

Persons having fiduciary relationships with a pension fund may include the pension committee, the trustee or custodian, the appointed administrator or recordkeeper, and consulting professionals.

A breach of fiduciary responsibilities is presumed when a fiduciary acts out of self-interest. A breach could also result when a fiduciary fails to meet a high standard of care in providing information or counselling.

When pension plan administrators and their appointed agents are undertaking investment activities, they are required by most Canadian jurisdictions to exercise the care, diligence and skill in the investment of a pension fund that a person of ordinary prudence would exercise in dealing with the property of another person. This is generally known as the “prudent person rule.” The establishment of a SIPP is a key part of the exercise of prudence by a pension plan administrator.

As noted above, some jurisdictions no longer require SIPPs in the case of “member choice” accounts. However, legislation in some of those jurisdictions prescribes the nature of the investment options that should be offered to plan members, usually confirming the need for prudence in this activity. For example, the federal PBSA requires that a “member choice” plan must offer investment options of varying degrees of risk that would allow a reasonable and prudent person to create a portfolio of investments that is well-adapted to their retirement needs. A plan administrator who meets this requirement and other requirements of the regulations is deemed to meet the stated prudent person standard of care for investing plan assets. Alberta, British Columbia, Manitoba and Quebec take a similar approach within their pension standards legislation.

CAPSA Guideline No. 6, included as an Assigned Reading for this Module, provides more details around prudent investment practices for RPPs.

### “Member Choice” RPPs and Nonpension Registered Plans

CAPSA Guideline No. 3, Guideline for Capital Accumulation Plans (CAP Guidelines) are intended to assign and clarify the duties and responsibilities of service providers and plan sponsors (e.g., employers or unions) that offer their employees or members a plan that falls under the definition of CAP, including defined contribution (DC) pension plans, Group RRSPs and DPSPs with one thing in common—employees or members make their own decisions about how to invest all or part of their contributions. These types of plans are collectively known as capital accumulation plans (CAPs).

The CAP Guidelines describe fiduciary responsibilities for all CAP sponsors and are perhaps most useful as guidance for sponsors of Group RRSPs and DPSPs, which are not subject to minimum pension standards legislation. According to the CAP Guidelines, sponsors of CAPs hold fiduciary responsibility for certain aspects of the plan’s design and operation. In broad terms, this fiduciary responsibility is the plan sponsor’s legal responsibility to watch over and act in the best interests of its plan members—whether in a formal pension plan or a less regulated Group RRSP or DPSP. “Acting in the best interests of plan members” means accountability for investment management, administration, registration and communication aspects of the plan, including situations when the actual delivery of these services could be from a third party.

The CAP Guidelines provide ways for CAP sponsors to implement good governance practices, particularly as they include clear, logical and understandable communications about the plan, its purpose and the potential outcomes. Good governance helps a plan sponsor to meet their fiduciary responsibility.

## Study Guide Module 9

**Pages 1 to 2, Assigned Reading:** Remove the current pages 1 to 2 from your Study Guide and replace them with the new pages that follow. Appendix 1 has been replaced.

**Pages 19 to 20, Learning Outcomes 4.2 to 4.3:** Remove the current pages 19 to 20 from your Study Guide and replace them with the new pages that follow. Learning Outcomes and page references have been updated.





# Developing the Statement of Investment Policy

## Module 9

As indicated in the preceding module, many registered pension plans (RPPs) are required by law to have a written statement of investment policies and procedures (SIPP) or written goals in respect of the plan's portfolio of investments and loans. Note that this is also commonly referred to simply as an investment policy statement. For capital accumulation plans (CAPs), both pension and non-pension, compliance with the Guideline for Capital Accumulation Plans (CAP Guidelines) addresses many of the same elements as contained in a SIPP. A good SIPP and/or compliance with the CAP Guidelines helps administrators meet the recognized standard of care in the area of plan investments. In turn, this can assist in the optimization of members' benefits under CAP provisions and the fulfillment of promised benefits under defined benefit (DB) pension plan provisions.

SIPPs can be elaborate or simple, but they must reflect some key elements. This module looks at elements contained in SIPPs for both DB and defined contribution (DC) pension plans and the process of developing a SIPP. The concept of "investment beliefs" as they impact SIPPs is introduced.

As seen in the preceding module, many provinces have elected to adopt some or all of the federal investment regulations. For this reason, the scope of the federal Guideline for the Development of Investment Policies and Procedures for Federally Regulated Pension Plans is far-reaching. Additional guidance has been provided by Ontario to assist plan administrators in their understanding of Ontario's requirements for plan sponsors to reflect environmental, social and governance (ESG) factors within their SIPP.

These guidelines can be adapted by each plan administrator to reflect plan-specific benefit obligations, pension fund objectives and, for DB pension plans, all other factors that may affect the ongoing plan funding and solvency and the ability to meet financial obligations. Once developed and approved, the SIPP becomes a vehicle for monitoring both fund and manager performance.

## Assigned Reading



### Reading A

Investment Policy Statement Requirements, Study Guide Module 9, Pages A-1 to A-3

### Reading B

Office of the Superintendent of Financial Institutions Guideline for the Development of Investment Policies and Procedures for Federally Regulated Pension Plans (OSFI SIPP Guideline), Study Guide Module 9, Pages B-1 to B-23 (excluding Appendix I, Section I.3.2)

**Candidate Note:** Reading B was written before the removal of foreign investments for pension funds. On Page B-20, under Foreign Exposure, delete the final clause of the second sentence, specifically the words “perhaps the most important being the limit imposed by the Income Tax Act.” Also note that despite the use of “SIP&P” within Reading B, this Module and previous Modules in this course and RPA 1 have adopted the abbreviation “SIPP” when referring to an investment policy statement.

As of April 2015, federal pension standards legislation was changed to eliminate the requirement that member-directed defined contribution plans adopt SIPPs. A number of Canadian jurisdictions have adopted the investment requirements of the federal pension standards legislation. As a result, SIPPs for such member-directed defined contribution plans are no longer required in those jurisdictions, including, most recently, Ontario. However, all jurisdictions continue to require a SIPP for any hybrid or combination pension plan that includes both defined benefit and defined contribution provisions.

### Reading C

Financial Services Commission of Ontario Guidance Note IGN-004, Environmental, Social and Governance (ESG) Factors, Study Guide Module 9, Pages C-1 to C-5

### Reading D

The Role of Investment Beliefs, Study Guide Module 9, Pages D-1 to D-2

### Appendix 1

CAPSA Guideline No. 3, Guideline for Capital Accumulation Plans (CAP Guidelines), Sections 2.2, 2.3 (Pages 11-13) and 6.4 (Pages 26-27)

## Learning Outcome



# 4

Explain the requirements of pension standards legislation and best practice guidelines as they relate to the investment policies for member-choice defined contribution (DC) pension plans and other capital accumulation plans (CAPs).

**4.1 Describe the requirements of pension standards legislation in the area of investment policies for member choice DC pension plans.** (Reading A, Study Guide Module 9, p. A-3)

Most pension standards legislation in Canada exempts member-choice DC pension plans from the requirement of preparing a SIPP for the plan. Effective 2022, only New Brunswick pension standards legislation requires that sponsors of member choice DC pension plans prepare and register a SIPP with the provincial pension regulator.

**4.2 Identify examples of investment options a CAP sponsor may consider selecting.**

(Appendix 1, CAPSA Guideline No. 3, Guideline for Capital Accumulation Plans (CAP Guidelines), p.11)

Examples of investment options a CAP sponsor may consider selecting include:

- (a) Investment funds
- (b) Guaranteed investment certificates (GICs)
- (c) Guaranteed term or lifetime annuity contracts
- (d) Employer securities
- (e) Other securities.

**4.3 Identify factors that CAPSA Guideline No. 3, Guideline for Capital Accumulation Plans (CAP Guidelines) recommends a CAP plan sponsor consider in its review of the criteria used in its investment selection.**

(Appendix 1, CAPSA Guideline No. 3, Guideline for Capital Accumulation Plans (CAP Guidelines), pp. 26-27)

In establishing criteria for the periodic review of each investment option and fund, the CAP sponsor should ensure the investments continue to meet the criteria used in its selection and consider:

- (a) Updating the criteria to reflect changes in the marketplace
- (b) Including a performance assessment, relative to its benchmark, as applicable, over various time periods
- (c) Assessing whether the amount of fees associated with the investment options are reasonable and achieve value for plan members given the actual and expected investment performance
- (d) Ensuring that risks, returns and characteristics of the investment options are aligned with expectations
- (e) The impact of any changes to the investment manager's firm, team or investment strategy
- (f) Members' investment behavior and usage of the investment fund.

## Study Guide Module 11

**Pages 1 to 2, Assigned Reading:** Remove the current pages 1 to 2 from your Study Guide and replace them with the new pages that follow. Appendix 1 has been replaced.

**Pages 9 to 16, Learning Outcomes 1.7, 1.9, 1.10, 1.11, 1.16, 1.17 and 1.18:** Remove the current pages 9 to 16 from your Study Guide and replace them with the new pages that follow. Learning Outcomes and page references have been updated.

**Pages 19 to 20, Learning Outcomes 2.3 and 2.4:** Remove the current pages 19 to 20 from your Study Guide and replace them with the new pages that follow. Learning Outcomes and page references have been updated.

**Pages A-7 to A-12, Capital Accumulation Plan Investment Cycle:** Remove the current pages A-7 to A-12 from your Study Guide and replace them with the new pages that follow. Reading A has been updated.



# Implementing the Capital Accumulation Plan Investment Policy

## Module 11

This Module looks specifically at the capital accumulation plan (CAP) investment cycle. A CAP may be a defined contribution (DC) pension plan or a nonpension registered program such as a Group Registered Retirement Savings Plan (Group RRSP) or a deferred profit sharing plan (DPSP), or some combination of these plan types. The basic structure of a CAP means that the investment management process differs from that of a defined benefit (DB) pension plan. Unlike DB pension plans, CAP sponsors do not assume the financial risk of poor investment performance; CAP plan members bear that risk. As a result, CAP members must understand their individual risk profiles and investment timelines and make choices from the options available through the plan. CAP sponsors are responsible for structuring the operation of the CAP, including choosing the investment options to make available under the plan. This requires prudence and due diligence in the selection and monitoring of service providers and plan investment options.

In order for CAP sponsors to meet their fiduciary responsibilities for their plan(s), their activities include providing members with sufficient education and tools to make intelligent decisions on the investment of funds. In addition, for CAPs that are DC pension plans, there can be legislative requirements relating to an investment policy. Much of the investment cycle described in this Module relates to the way the CAP sponsor undertakes their fiduciary responsibilities.

Given the nature of CAPs and the frequency with which certain activities are outsourced to service providers (which includes, in many cases, both investment and recordkeeping activities), this Module also discusses the responsibilities of CAP sponsors in the oversight of those activities delegated to outside service providers.

## Assigned Reading



### Reading A

Capital Accumulation Plan Investment Cycle, Study Guide Module 11, Pages A-1 to A-15

### Reading B

An Overview of Lifecycle Funds, Study Guide Module 11, Pages B-1 to B-6

### Reading C

Excerpts From Office of the Superintendent of Financial Institutions (OSFI) Disclosure Requirements for Defined Contribution Pension Plans, Study Guide Module 11, Pages C-1 to C-6 (to Section 4.5 Plan expenses and fees) and Page C-8 (from 5. Investment Information) to C-9 (to 6. Annual Statements to Members)

### Reading D

Excerpts From CAPSA Guideline No. 8, Defined Contribution Pension Plans Guideline, Study Guide Module 11, Pages D-8 (from 4.0 Information for Members Who Are Approaching the Payout Phase) to D-10 (to 5.1 Information Regarding Withdrawals from a Variable Benefit Plan)

### Appendix 1

CAPSA Guideline No. 3, Guideline for Capital Accumulation Plans (CAP Guidelines), Sections 2.1.1, (Pages 10-11); 3.2-3.4 (Pages 16-18); 4.2-4.4 (Pages 19-21); 5 and 6 (Pages 22-27)

**Candidate Note:** In most of this Module, the term “investment decision maker(s)” is used to represent the plan administrator, board of trustees, or pension committee that holds investment and administrative responsibilities for capital accumulation plans.



### 1.6 Explain the concept of a “default” investment option and describe the pros and cons of some investment options used as a CAP’s default investment option.

(Reading A, Capital Accumulation Plan Investment Cycle, Study Guide Module 11, pp. A-5 to A-6)

A “default” option is an investment option designated by the plan investment decision makers for plan members who fail to elect an investment choice at the time of their enrolment. By definition, a default is intended as a short-term “parking spot” until the plan member makes an informed investment decision but, in reality, plan members may be invested in the default investment option for an extended period of time. In reality, plan members may be invested in the default investment option for an extended period of time.

Investment options that have been used as default options, and their associated pros and cons, include:

- (a) Money market fund. Money market funds have a very low-risk nature. However, CAP members who leave their plan monies invested in a money market fund for the long term will earn very low investment returns.
- (b) Balanced fund. Balanced funds offer members professional management of the asset-mix decision, and a diversified approach investing in fixed income, stocks and cash. Asset mix is normally static, which may not be appropriate for certain plan members due to their investment time horizon or appetite for risk.
- (c) Target-risk fund. This special type of balanced fund allows members to invest in a diversified portfolio with a specific and defined investment risk profile. A drawback is that the investment risk level chosen for the default fund may not be appropriate for all members.
- (d) Target-retirement-date fund. Another special type of balanced fund which offers members a diversified portfolio with a dynamic asset mix that becomes more conservative as the member approaches their expected date of retirement. One drawback is that when used as a default option, the fund’s maturity date may not match the member’s planned retirement age.

**1.7 Explain how CAPSA Guideline No. 3, Guideline for Capital Accumulation Plans (CAP Guidelines) addresses default investment options.** (Reading A, Capital Accumulation Plan Investment Cycle, Study Guide Module 11, p. A-7)

The CAP Guidelines are silent on what is an appropriate default investment option. In the absence of legislation, there is no right or wrong answer for default selection by the CAP sponsor; however, the requirement for prudence and fiduciary responsibility guides its decision. The CAP sponsor should establish a policy that outlines what happens if a member does not make an investment choice within a specified period of time and should describe the default investment option that will be applied to their assets if they do not make a choice. The CAP sponsor should also consider a default option that could be suitable as the core of a member's investments, not just in the context of an absence of member investment choice, and the policy should be disclosed to members, when possible, before any action is required.

**1.8 Describe one of the first considerations that influences the service provider structure of a CAP.** (Reading A, Capital Accumulation Plan Investment Cycle, Study Guide Module 11, p. A-9)

Investment decision makers must determine whether there is in-house expertise and capabilities to undertake such main CAP activities as:

- (a) Trustee and/or custodial services
- (b) Recordkeeping and administration, including reporting to members and the plan sponsor
- (c) Investment management
- (d) Communication to members, including the provision of decision-making tools and investment and retirement planning education.

When such in-house expertise is not available, one of the first decisions to be made is whether to use a bundled or unbundled approach.

**1.9 Describe the selection criteria that CAP investment decision makers who have selected a “bundled” approach can use when selecting service providers.**

(Reading A, Capital Accumulation Plan Investment Cycle, Study Guide Module 11, p. A-10)

CAP investment decision makers can consider use of the following:

- (a) Whether the service provider can offer investment managers that offer all the types of investments required in accordance with those chosen in Step 1 of the investment cycle. Some CAP investment policies identify specific types of investment options that are to be made available. These can include stock issued by the plan sponsor, Guaranteed Investment Certificates (GICs) of varying duration and other types of market-based funds. If the investment policy specifies the need for any of these other types of investment options, or for specific types of pooled funds, it is important for the plan sponsor to identify whether the service providers being considered provide access to those types of investment options. If all service providers meet the requirements of the investment policy, then administrative and fee considerations may take precedence in the selection of the service provider.
- (b) Administration requirements. Investment decision makers need to satisfy themselves that the package of services meets the following criteria: (1) compliance with all legislative requirements and (2) the unique needs of the plan sponsor and employee group, given the purpose of the CAP and the investment objectives and constraints established in Step 1.
- (c) Fee structures available through providers that offer bundled CAP arrangements.

**1.10 Identify the factors that the CAP Guidelines recommend CAP investment decision makers consider when establishing criteria for selecting service providers.** (Appendix 1, Guideline No. 3, Guideline for Capital Accumulation Plans (CAP Guidelines), pp. 10-11)

Factors CAP sponsors consider in service provider selection include:

- (a) Potential conflicts of interest
- (b) Reputation, professional qualifications or designations, and experience
- (c) Historical and expected stability of the service provider team
- (d) Specialization in the type of service to be provided
- (e) Controls in place to secure CAP members’ personal data
- (f) Consistency of service offered in all geographical areas in which members reside
- (g) Quality, level and continuity of services offered
- (h) Competitiveness and reasonableness of the cost of services
- (i) Appropriate level of access to information from the service provider to allow the CAP sponsor to meet member recommended disclosure requirements.

**1.11 Identify factors that the CAP Guidelines recommend CAP investment decision makers consider when establishing criteria for selecting service providers to provide investment advice to members.** (Appendix 1, Guideline No. 3, Guidelines for Capital Accumulation Plans (CAP Guidelines), p. 21)

Factors CAP sponsors consider when establishing criteria include:

- (a) Criteria used to select service providers generally
- (b) Any conflict of interest or real or perceived lack of independence of the service provider relative to other plan service providers, the CAP sponsor and its members that may impact the investment advice or other services provided
- (c) Availability of an asset allocation or financial planning model as well as processes for ensuring the ongoing reasonableness of the model's underlying assumption
- (d) Any qualifications, such as registrations and/or proficiency requirements, that individuals and/or their firms must meet before providing investment advice or financial planning services, including the use of financial advisor and financial planner titles, as applicable
- (e) Knowledge of CAPs and related tax and regulatory requirements, as applicable
- (f) Requirement to protect the security of CAP members' personal data
- (g) Level and competitiveness of fees charged for services provided as well as which fees are paid by the member
- (h) Any commissions or other incentives that the service provider may obtain from the CAP members' investment in certain options.

**1.12 Describe the fees associated with a CAP that has elected to use a bundled approach to plan operation.** (Reading A, Capital Accumulation Plan Investment Cycle, Study Guide Module 11, p. A-10)

When the CAP sponsor uses a bundled approach for services, it is also common for the plan fees to be expressed in a bundled manner.

In this situation, some or all of the fund management, investment transaction, custody, and other investment administration and plan administration fees are combined into a bundled fee. In CAPs, it is common for insurance company providers to provide all those services under the umbrella term "investment management fees." In addition to the investment management fees, Goods and Services Tax/Harmonized Sales Tax (GST/ HST), segregated fund operating expenses and fund manager operating expenses are normally charged. It is not usual for the insurers to disclose the specific composition of the investment management fees, and there is no requirement that the fee bundle be transparent.

**1.13 Describe how fees are assessed for CAP investment managers.** (Reading A, Capital Accumulation Plan Investment Cycle, Study Guide Module 11, p. A-11)

While the typical activities of CAP investment managers are similar to those of DB pension plan investment managers, when a CAP operates on a bundled basis, the assessment of fees for those activities is different. The assessment of fees includes:

- (a) Investment management fees. In CAPs, investment management fees are typically asset-based (i.e., percentage of assets). When the investment manager operates outside of the service provider (e.g., an insurance company can contract with an institutional or mutual fund manager to include its products within the insurers' product offering), the level of investment management fees reflects the fee arrangement between the service provider and the investment manager. As a result, it is common (but not universal) for those investment options that are proprietary to the service provider to have a lower level of investment management fee than a similar fund managed by an outside investment manager. Sometimes fees for active investment management scale down with the asset-level ranges (e.g., size of the investment). For example, a fee schedule that starts out at 100 basis points on the first dollar of plan assets may be as low as 15 basis points on each dollar of plan assets over \$100,000,000.
- (b) Segregated fund operating expenses and fund manager operating expenses. These fees apply to service providers' (e.g., insurers') investment products. They include trading expenses, custody fees, accounting fees, consulting fees, legal fees or other related fees incurred by the fund managers. They are charged separately and expressed by the service provider as the percentage of fund assets that they represented in the previous calendar year.
- (c) Administration fees. For a bundled CAP, the selected service provider incurs costs related to the maintenance of plan member records and reporting to plan sponsors and members. Often the service provider's fees for these services are "bundled" into the total investment fees, or sometimes there is a separate fee for these services. It is common for certain transactional expenses (e.g., a fee for processing an in-service withdrawal from a Group Registered Retirement Savings Plan (Group RRSP)) to be charged directly to the member making the transaction.

**1.14 Describe criteria typically used by CAP investment decision makers when selecting specific investment alternatives in Step 3 of the CAP investment cycle.**

(Reading A, Capital Accumulation Plan Investment Cycle, Study Guide Module 11, p. A-12)

The selection of specific investment alternatives is based on the plan's investment objectives and constraints determined in Step 1 of the investment cycle. It is possible that the selected service provider will offer a number of investment alternatives that, on the surface, appear to meet the CAP sponsor's objectives (e.g., it offers more than one actively managed Canadian equity fund that follows a growth style of equity management). In this case, an analysis of each investment alternative is required to identify the option that is most appropriate for the CAP. This generally involves obtaining information about the respective fund managers, the composition of each alternative fund, relative fee levels and the managers' respective success at meeting their investment objectives for the investment funds.

**1.15 Outline the primary responsibilities of CAP investment decision makers relating to the provision of investment information to members in Step 4 of the CAP investment cycle.** (Reading A, Capital Accumulation Plan Investment Cycle, Study Guide Module 11, pp. A-13 to A-14)

Step 4 of the CAP investment cycle (Provide investment information to members) calls on CAP investment decision makers to fulfill the following responsibilities:

- (a) Ensuring that each member has sufficient education and tools to make an informed decision about the investment of their funds
- (b) Clearly communicating the risks inherent in CAPs to the members.

**1.16 Outline factors recommended by the CAP Guidelines that CAP investment decision makers should consider when establishing criteria for the periodic review of service providers and investment options.** (Appendix 1, Guideline No. 3, Guideline for Capital Accumulation Plans (CAP Guidelines), p. 26)

In establishing criteria for periodic reviews, CAP sponsors should consider:

- (a) Evolving CAP requirements
- (b) Updating the criteria to reflect the current marketplace, including fees and range of services available
- (c) Including a performance assessment of the service provider and the quality of its product or service
- (d) Reassessing any perceived or actual conflicts of interest
- (e) Assessing both the sponsor's and members' satisfaction regarding services rendered by the service provider.

**1.17 Describe Step 5 of the CAP investment cycle, monitor performance on an ongoing basis as it relates to the plan's investment options.** (Reading A, Capital Accumulation Plan Investment Cycle, Study Guide Module 11, pp. A-14 to A-15 and A-17; Appendix 1, Guideline No. 3, Guideline for Capital Accumulation Plans (CAP Guidelines), p. 26)

The investment policy and constraints established in Step 1 set out the review requirements for the investment options and fund managers. The CAP Guidelines suggest reviewing investment options at least annually, which for DC pension plan CAPs is consistent with statement of investment policies and procedures (SIPP) requirements.

The objective of investment performance monitoring is to provide plan fiduciaries with accurate, comprehensive measurements that provide a basis for decision making and allow more effective discharge of plan governance responsibilities. The process of monitoring an investment option is similar to any monitoring process where objectives are determined and policy and process are established for monitoring results and adjusting actions as required. The key to effective performance evaluation is having an evaluation framework (i.e., knowing the objective, the appropriate measures and the performance benchmarks) and then consistently reviewing the actual performance using consistent standards. The same metrics used to measure investment performance for DB pension plans can be applied to CAPs. A CAP investment decision maker is concerned with the same quantitative and qualitative factors since they apply to each of the CAP investment options.

Investment decision makers must consider the impact of unsatisfactory performance of investment options upon plan members and determine appropriate action, including in the area of employee communication as outlined in the CAP Guidelines.

**1.18 Outline factors CAPS Sponsors should consider when reviewing the performance of each investment option and fund in its plan.** (Appendix 1, Guideline No. 3, Guideline for Capital Accumulation Plans (CAP Guidelines), pp. 26-27)

Factors plan sponsors should consider include:

- (a) Updating the criteria to reflect changes in the marketplace
- (b) Including a performance assessment, relative to its benchmark, as applicable, over various time periods
- (c) Assessing whether the amount of fees associated with the investment options are reasonable and achieve value for plan members given the actual and expected investment performance
- (d) Ensuring that risks, returns and characteristics of the investment options are aligned with expectations

- (e) The impact of any changes to the investment manager's firm, team or investment strategy
- (f) Members' investment behavior and usage of the investment fund
- (g) Assessing whether the amount of fees associated with the investment options are reasonable and achieve value for plan members, given the actual and expected investment performance
- (h) Ensuring that risks, returns and characteristics of the investment options are aligned with expectations
- (i) The impact of any changes to the investment manager's firm, team or investment strategy
- (j) Members' investment behavior and usage of the investment fund.



**2.3 Outline information that the CAP Guidelines recommend CAP investment decision makers include in the performance report given to each plan member for each investment fund.** (Appendix 1, Guideline No. 3, Guidelines for Capital Accumulation Plans (CAP Guidelines), p. 24)

The CAP Guidelines recommend that the performance report for each investment fund include:

- (a) The name of the investment fund for which performance is being reported
- (b) The returns, name and description of the benchmark against which the investment fund's performance is measured, if applicable
- (c) The performance of the fund over one, three, five and ten years to the extent available and applicable and/or the current and effective yields for money market investment funds
- (d) Whether the investment performance is gross or net of investment management fees and fund operating expenses (the same basis should be used for all investment options made available in the CAP)
- (e) A description of the method used to calculate the fund performance, along with information on where to find a more detailed explanation
- (f) A statement that past performance may not be repeated and is not necessarily indicative of future performance.

The investment performance report provided, or made accessible, for each investment fund should be updated at least annually and be consistent with the prevailing market practice for that type of fund.

**2.4 Outline information that the CAP Guidelines recommend CAP investment decision makers provide to members if there are significant changes in investment options.**

(Appendix 1, Guideline No. 3, Guidelines for Capital Accumulation Plans (CAP Guidelines), p. 23)

The CAP Guidelines recommend that CAP sponsors provide advance notice to CAP members of any material changes in investment options. The notice to members includes:

- (a) Effective date of the change
- (b) Brief description of the change and the reason for the change
- (c) How the change could affect the member's holdings in the plan (e.g., whether the change may affect the level of contributions or the risk profile of the particular investment option)
- (d) Manner in which assets will be allocated to new investment options, where applicable
- (e) Details of transaction fees or market value adjustments that may apply to the change
- (f) Summary of the tax consequences that may arise because of the change
- (g) Where to get more detailed information about the change
- (h) Details on what the members must do (if action is required) and the consequences of not taking action
- (i) A reminder to members to evaluate the impact of the change on their CAP strategy and personal financial position.

## CAP Guidelines Related to a Default Fund

The CAP Guidelines are silent on what is an appropriate default investment option. In the absence of legislation, there is no right or wrong answer for default selection by the CAP sponsor; however, the requirement for prudence and fiduciary responsibility guides its decision. The CAP sponsor should establish a policy that outlines what happens if a member does not make an investment choice within a specified period of time and should describe the default investment option that will be applied to their assets if they do not make a choice.

The CAP Guidelines suggest that CAP sponsors should consider the following factors in establishing the default investment option:

- (a) Purpose of the CAP and intended member outcomes
- (b) Level of risk associated with the default option
- (c) Competitiveness and reasonability of fees and whether those provide value for members
- (d) Demographics and observed behavior of members
- (e) Degree of diversification and liquidity provided.

The CAP sponsor should consider a default option that could be suitable as the core of a member's investments, not just in the context of an absence of member investment choice, and the policy should be disclosed to members, when possible, before any action is required.

Unlike the situation in the U.S., there are no Canadian guidelines or regulations that will provide investment decision makers with a "safe harbour" from member-initiated litigation relating to the investment options selected for a CAP.

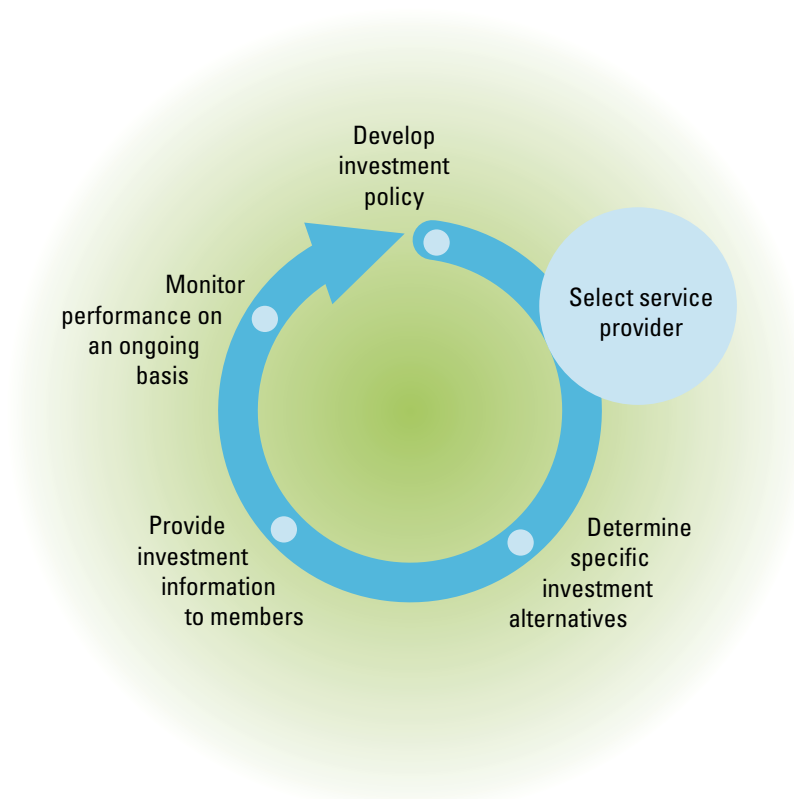
The U.S. Pension Protection Act of 2006 created the qualified default investment alternative (QDIA) intended to provide protection from liability arising from plan member use of the default investment option provided that certain features regarding the plan's investment choices are in place. These features are similar to some of the recommendations in the Canadian CAP Guidelines; for example, a range of investments is to be included in the plan, participants are provided with certain types of communication around the plan's investments at prescribed time and the operation of the default fund allows for transfers with the same frequency as other investment options.

## Step 2: Select Service Provider

Once the plan sponsor has finalized the CAP's investment objectives and constraints and determined the number and type of investment options it wants to offer plan members, the second step in the investment cycle is determining the service provider structure and selecting the service provider(s). While this step also forms part of the DB pension plan investment cycle, for a CAP, this step occurs at an earlier stage.

### Exhibit III

#### Capital Accumulation Plan Investment Cycle—Step 2



This difference between DB pension plan investment cycles and CAP investment cycles relates to the basic structure and operation of CAPs. Operation of a CAP requires the following main areas of activity:

- (a) Trustee and/or custodial services
- (b) Recordkeeping and administration (including reporting to both members and plan sponsors). Recordkeeping for CAPs is a complicated process, simply because of the nature of most CAPs—Members choose different investment options, change their investments from time to time based on their individual investment strategy and require clear communication of the implications of their contributions and risks inherent in their investment transactions.
- (c) Investment management
- (d) Member communication, preparation and distribution of decision-making tools and investment and retirement-planning education.

In this step of the CAP investment cycle, investment decision makers must consider whether there is the in-house capability to undertake these activities. If not, the prudent approach is to retain outside service providers that can appropriately complete them. To satisfy the needs of typical CAPs, insurance companies and specialty DC administrators have developed products and services that “bundle” these main areas of CAP activity. This bundling approach incorporates several products or services into a single product offering. If the CAP is medium to large in size and economies of scale can be achieved due to the size of the plan’s asset base, services may be unbundled to reduce costs, particularly investment management costs. Large CAPs may also be able to leverage their other provider relationships by, for example, using investment managers that are already employed for assets of a preexisting DB plan. However, the vast majority of CAPs use fully bundled arrangements with service providers.

Therefore, one of the first decisions to be made by the investment decision makers in this step of the CAP investment cycle is whether to use the bundled or unbundled approach.

As noted above, it is unusual for a CAP sponsor to be able to undertake all activities relating to the operation of a CAP. However, for larger plans, there may be some separation of duties, and prudence should determine which activities should be outsourced. The prudent approach is to consider the availability, quality and associated cost of available outsourced activities vs. completion of those activities in-house by the plan sponsor.

When a bundled approach is selected, the selection of the service provider also determines the specific investment managers that will be available for the CAP investment decision makers to consider when establishing the final list of investment alternatives in its plan. Most service providers have access to many of the same investment managers and specific investment options, with minor differences. The CAP investment decision makers’ selection of service provider considers the service providers’ ability to meet the CAP’s administrative requirements, the details of each service provider’s specific offering of investment alternatives and the specific fee arrangements offered by each service provider.

Given that most CAPs use a bundled approach for their plan, the balance of this section deals with selection criteria for service providers that offer a bundled approach. Criteria include:

- (a) Whether the service provider can offer investment managers that offer all the types of investments required in accordance with those chosen in Step 1 of the investment cycle. Some CAP investment policies identify specific types of investment options that are to be made available. These can include stock issued by the plan sponsor, Guaranteed Investment Certificates (GICs) of varying duration and other types of market-based funds. If the investment policy specifies the need for any of these other types of investment options, or for specific types of pooled funds, it is important for the plan sponsor to identify whether the service providers being considered provide access to those types of investment options. If all service providers meet the requirements of the investment policy, then administrative and fee considerations may take precedence in the selection of the service provider.
- (b) Administration requirements. Plan sponsors need to satisfy themselves that the package of services meets the following criteria:
  - Compliance with all legislative requirements
  - The unique needs of the plan sponsor and employee group, given the purpose of the CAP and the investment objectives and constraints established in Step 1.
- (c) Fee structures available through providers that offer bundled CAP arrangements. Further information about CAP fees is included in the CAP Guidelines, Section 3.4.

The CAP fee structure varies depending how the plan sponsor purchases the products and services (bundled or unbundled) and the type of recordkeeping provider used (i.e., mutual fund company, insurance company, bank or independent recordkeeper). When the CAP sponsor uses a bundled approach for services, it is also common for the plan fees to be expressed in a bundled manner.

In this situation, some or all of the fund management, investment transaction, custody, and other investment administration and plan administration fees are combined into a bundled fee. In CAPs, it is common for insurance company providers to provide all those services under the umbrella term “investment management fees.” In addition to the investment management fees, Goods and Services Tax/Harmonized Sales Tax (GST/HST), segregated fund operating expenses and fund manager operating expenses are normally charged. It is not usual for insurers to disclose the specific composition of the investment management fees, and there is no requirement that the fee bundle be transparent.

Module 10 identified the typical activities that DB pension plan investment managers are paid fees for. CAP investment managers engage in very similar activities; however, when a CAP operates on a bundled basis, the assessment of fees for those same activities is based on the following approach.

- (a) *Investment management fees.* In CAPs, investment management fees are typically asset-based (i.e., a percentage of assets held under management). When the investment manager operates outside of the service provider (e.g., an insurance company can contract with an institutional or mutual fund manager to include its products within the insurers' product offering), the level of investment management fee reflects the fee arrangement between the service provider and the investment manager. As a result, it is common (but not universal) for those investment options that are proprietary to the service provider to have a lower level of investment management fee than a similar fund managed by an outside investment manager. Sometimes fees for active investment management scale down with the asset-level ranges (e.g., size of the investment). For example, a fee schedule that starts out at 100 basis points on the first dollar of plan assets may be as low as 15 basis points on each dollar of plan assets over \$100,000,000.
- (b) *Segregated fund operating expenses and fund manager operating expenses.* These fees apply to service providers' (e.g., insurers') investment products. They include trading expenses, custody fees, accounting fees, consulting fees, legal fees or other related fees incurred by the investment fund managers. They are charged separately and expressed by the service providers as the percentage of fund assets that they represented in the previous calendar year.
- (c) *Administration fees.* For a bundled CAP, the selected service provider incurs costs related to the maintenance of plan member records and reporting to plan sponsors and members. Often the service provider's fees for these services are "bundled" into the total investment fees, or sometimes there is a separate fee for these services. It is common for certain transactional expenses (e.g., a fee for processing an in-service withdrawal from a Group Registered Retirement Savings Plan (Group RRSP)) to be charged directly to the member making the transaction.

Investment decision makers have significant fiduciary duties related to selecting and monitoring an investment manager. They must take care in selecting an investment manager, basing the selection on scrutiny of the manager's background and ability. Relevant and documented criteria based on the plan objectives should guide the selection and inform the ongoing monitoring of the investment manager's performance. Sections 2.1.1, 2.1.4, and 2.1.5 of the CAP Guidelines outline factors for the sponsor to consider in service provider selection.

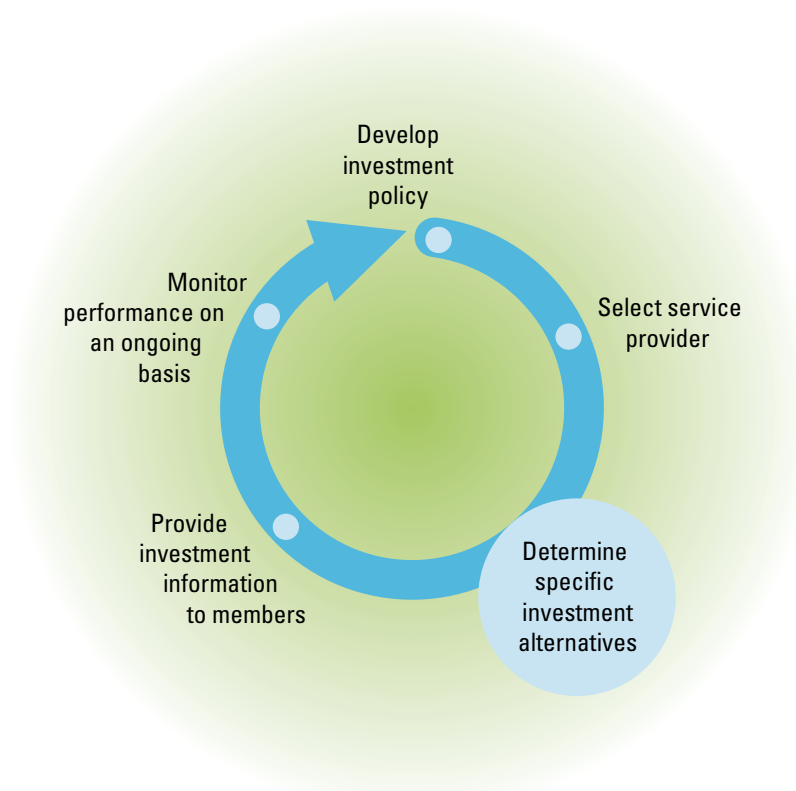
Guidance issued by the Ontario pension regulator included in Module 10 (Overview of Statements of Investment Policies and Procedures (SIPP) Requirements) recommends that the SIPP for a hybrid or combination plan include documentation of how investment managers are chosen, monitored and replaced, in a manner that encourages compliance to the policy's goals and procedures.

## Step 3: Determine Specific Investment Alternatives

Step 3 is the selection of specific investment alternatives to offer in the CAP, based on the investment objectives and constraints developed in Step 1 and the investment options available from the selected service provider.

### Exhibit IV

#### Capital Accumulation Plan Investment Cycle—Step 3



The selection of specific investment alternatives is based on the plan's investment objectives and constraints determined in Step 1 of the investment cycle.

It is possible that the selected service provider will offer a number of investment alternatives that, on the surface, appear to meet the CAP sponsor's objectives (e.g., it offers more than one actively managed Canadian equity fund that follows a growth style of equity management). In this case, an analysis of each investment alternative is required to identify the option that is most appropriate for the CAP. This generally involves obtaining information about the respective fund managers, the composition of each alternative fund, relative fee levels and the managers' respective success at meeting their investment objectives for their investment funds.



## Study Guide Module 12

**Pages 19 to 22**, Module 12, Capstone Case, Part B: Remove the current pages 19 to 22 from your Study Guide and replace them with the new pages that follow. The replacement pages have updated information about Appendix A.

**Page 27**, Module 12, Capstone Case, Part B, Apply Your Knowledge: Remove the current page 27 from your Study Guide and replace it with the new page that follows. Page references have been updated.

**Pages 43 to 47**, Module 12, Capstone Case, Appendix A: Remove the current pages 43 to 47 from your Study Guide and replace them with the new pages that follow. Appendix A has been replaced.

**Pages 77 to 79**, Module 12, Capstone Case, Hear From a Benefits Professional, Part B: Remove the current pages 77 to 79 from your Study Guide and replace it with the new pages that follow. Page references have been updated.

**Pages to 89 to 90**, Module 12, Capstone Case, Test Your Knowledge Progress Quiz: Remove the current pages 89 to 90 from your Study Guide and replace it with the new pages that follow. Page references have been updated for Question 5.



Dennis echoed Simon's concerns. *"That is the only information we have on hand about Time Is Right."* Dennis pointed to the proposal in Liana's hand. *"Basically, we need your help in assessing their services and some advice on how we can implement John's instructions."*

*"Thanks, Simon. I have some knowledge of Time Is Right. Their primary focus is on the management of funds for high-net-worth individuals, and John fits their target market. I haven't run into them in my work with employer-sponsored pension plans, and I don't know whether they manage pension funds. I'll do some research into their operations on your behalf. However, in the meantime, I suspect that your greater concern relates to how to respond to John. Am I right?"* Liana asked.

*"Absolutely,"* responded Dennis. *"This focus on 'higher' and 'better' returns is often accompanied by comments around the volatility of our DB pension plan contributions. That doesn't seem to mesh with the normal investment belief that you can get higher returns only if you take more risk. And the consequences of that may be wide swings in the funded status of the plan, leading to variation in contributions."* Simon nodded in agreement. Dennis had said exactly what he was thinking.

*"I get it,"* said Liana. *"I'm sure you want, as much as it is possible, to educate John a bit around that risk/reward relationship and the legalities of pension investments. If you can give me a bit of time on this project, I can put something together for you on both of these matters."* Liana paused before continuing. *"And, it may be useful for your corporate lawyers to be involved with this discussion as well. They have a retirement plan practice, and while we haven't needed their assistance since John's acquisition of the firm, I think they can be a valuable resource in this situation. While I've helped your committee structure its governance practices, their involvement may offer more weight to your discussions with John. Can we include them in this discussion?"*

Dennis and Simon looked at each other. Simon responded, *"We do feel a sense of urgency, but I understand that you'll need some time. I'll contact the lawyers and ask them to cooperate on this project and to give it some priority. Once you've had a discussion with them, let us know how quickly you'll be able to get something put together."*

*"I will certainly be mindful of your time constraints."* Simon and Dennis looked relieved. Liana knew that John's request had caused them a lot of stress.

*"Do you still have time to look at the DC investment report today?"* Liana asked. *"This will complete the full investment performance review process in respect of the recent plan year."*

# Capstone Case B

Simon and Dennis nodded in agreement. Liana continued, *“As you know, like many provinces, Ontario does not require administrators of member-directed DC pension plans to prepare a SIPP. The previous owner of Best Autos Ontario was required to do so. To date, Best Autos has maintained the SIPP developed before John bought the company and when it was a FSRA requirement. The current SIPP, covering both pension plans including their DB and DC components, is extremely beneficial from a plan monitoring perspective.”*

See  
Appendix  
**A**

**Excerpts from CAPSA Guideline No. 3, Guideline for Capital Accumulation Plans Related to The Annual Review of Pension Assets Supporting DC Component of the Plan**  
Study Guide Module 12,  
Appendix A, pages 43 to 47

Liana gave them each a package of materials and started right in, *“There are a couple of documents here: some sections of CAPSA’s Guideline No. 3, Guideline for Capital Accumulation Plans relevant to our discussion of the DC investment performance review and our investment performance report.”*

After scanning the Guidelines excerpts, Simon noted one section in particular. ***“Section 1.3.1 confirms that as the legal pension plan administrator, Best Autos has fiduciary responsibilities to plan members and beneficiaries. It also clearly indicates it is the CAP sponsor’s responsibility to maintain oversight of the CAP, including performance monitoring and oversight of service providers and investment options, as well as the review of fees and expense. Section 6; Maintaining Oversight of a CAP is helpful in outlining everything we should consider when 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.”***

Liana nodded in agreement. ***“It’s useful to think of this annual review as a part of a cycle that repeats itself each year. As you know, we’ve held this type of meeting each year since John acquired Best Autos and you formed your Pension Committee. The CAP Guidelines are comprehensive. For today’s purposes, let’s deal with the investment option and fund monitoring activities; the results from those activities may drive additional actions.”***

Liana continued, ***“Your SIPPs provide all of your investment policies. Given that the investment sections across both SIPPs are the same, I am using the Windsor Hourly Paid the SIPP is DB and DC sections of the plan. Page 50 gives the general purpose of that document.”***

**Statement of Investment Policies  
and Procedures for the Pension  
Plan for Windsor Hourly Paid  
Employees of Best Autos**

Study Guide Module 12,  
Appendix B, pages 49 to 60

See  
Appendix  
**B**

Excerpt from Appendix B

## Statement of Investment Policies and Procedures for the Pension Plan for Windsor Hourly Paid Employees of Best Autos

### INTRODUCTION

This is the Statement of Investment Policies and Procedures (the “SIPP”) for the Noncontributory Pension Plan for the Hourly Paid Employees of Best Autos (the “Plan”). It describes the current operating procedures, objectives and policies for investing the assets of the Plan (the “Fund”). This SIPP will be periodically updated as policies are reviewed and revised and as necessitated by changes in regulations.

Best Autos Ontario (Best Autos) is the employer and is the sponsor and legal administrator of the Plan. Best Autos is responsible for ensuring that the Fund is managed in a prudent and effective manner.

This SIPP has been prepared in accordance with all relevant legislation and regulations affecting the Plan.

### Purpose

The primary goal of the Plan is to provide members and their beneficiaries with retirement benefits. It is expected that the prudent and effective management of the Fund will have a direct impact on the achievement of this goal.

This SIPP describes the investment objectives for the Plan. The basic objective is to ensure that the assets of the Fund will be invested in a continued prudent and effective manner.

As Dennis and Simon read through that section of their copy of the SIPP for the Windsor Hourly Paid Employees Plan, Liana continued. ***“We have already reviewed the performance of the defined benefit pool of assets. For the defined contribution assets, your plan offers members an extensive list of choices in all major asset classes, including managed fund alternatives such as target-risk and target-date funds. Refer to page 57 for your selection criteria for the investment options.”***

Excerpt from Appendix B

### Quantitative and Qualitative Criteria

Investment options in the categories described above will be eligible to be included in the Fund if they meet the following quantitative and qualitative criteria:

- Money market, bonds, balanced, Canadian and foreign equity funds will have been in operation for at least five years
- A consistent record of maintaining the stated investment strategy and style for the option as stated by the manager of that option
- Organizational stability, strength and continuity of key personnel managing the investment option
- The investment option has exhibited a consistent history of providing good performance when compared to the investment objective/benchmark published by its manager. For these purposes, “good performance” means performance that has met or exceeded that of the manager’s stated investment benchmark in at least 50% of the fund measurement observations.
- To the extent that the application of the previous criteria to the investment options offered by the Custodian/Trustee provides similar results, relative investment returns and level of investment management fees will be used to determine which investment option will be selected.



## Apply Your Knowledge

Given the discussion at today's meeting, Liana knew there would be a lot of work on this project. Liana's goal is to make sure the appropriate (and agreed-upon) governance activities for the DC component of the plan are completed. Imagine you have stepped into Liana's role as retirement consultant. Apply what you have learned from RPA 2 to answer these questions.

1. **Liana mentioned that the investment performance discussion was part of a cycle that occurs every year. In the context of the DC component of the plan and the changes discussed at the meeting, describe how the investment changes decided on by Best Autos' Pension Committee call for activities related to other steps within that cycle for Best Autos' pension plans.** (Learning Outcomes 1.14, 1.18 and 2.4, Study Guide Module 11, pp. 14-15 and 20; Reading A, Capital Accumulation Plan Investment Cycle, Study Guide Module 11, pp. A-12, A-14 to A-15 and A-17; Appendix 1, CAP Guidelines, Section 5.2.2, p. 23)
  
2. **Based on the content of Best Autos' SIPP, describe the considerations that will be made by Liana as she prepares a report for Dennis and Simon about an alternative fund manager, fund for the manager and fund being terminated.** (Appendix B, Statement of Investment Policies and Procedures for the Pension Plan for Windsor Hourly Paid Employees of Best Autos, Study Guide Module 12, pp. 49-60; Learning Outcomes 1.14 and 1.18, Study Guide Module 11, pp. 14-15; Reading A, Capital Accumulation Plan Investment Cycle, Study Guide Module 11, pp. A-12 and A-14 to A-15; Appendix 1, CAP Guidelines, Sections 6.3 and 6.4, pp. 26-27)
  
3. **In the context of the DC component of Best Autos' pension plan, describe the best practices the CAP Guidelines suggest when a significant change is made to the investments.** (Learning Outcome 2.4, Study Guide Module 11, p. 20; Appendix 1, CAP Guidelines, Section 5.2.2, p. 23)





## Section 1: Introduction

### 1.2.5 Investment Funds

For the purposes of this guideline only, an “investment fund” means a mutual fund (e.g., a redeemable fund or an exchange-traded fund (ETF), non-redeemable investment fund, segregated fund or similar pooled investment product made available to members under the CAP for the investment of their CAP assets or payment of retirement income). The above definition is intended to broadly reflect the range of investment options that may generally be considered to be investment funds across securities, insurance and pension sectors.

### 1.2.6 Investment Options

An “investment option” means an investment fund or other type of investment made available to members under the CAP.

### 1.3 Responsibilities of CAP Sponsors, Service Providers, and CAP Members

The CAP Sponsor Pension legislation sets out a duty of care for DCPD administrators. All CAP sponsors have responsibilities to CAP members which may in some instances include fiduciary responsibilities. The nature and extent of a CAP sponsor’s responsibilities depends on the type of CAP and its characteristics. In maintaining a CAP, it is expected that the CAP sponsor will perform (or engage third party service provider(s) to perform) the tasks outlined in this guideline. Even where CAP sponsors have engaged service providers to carry out certain tasks or functions, the CAP sponsor retains ultimate responsibility for overseeing their CAP and should be engaged in fostering the achievement of the intended member outcomes. The CAP sponsor is responsible for items such as:

- i. Setting up the CAP
- ii. Determining the key features of the CAP, including automatic features, if any
- iii. Selecting service providers, if any
- iv. Selecting investment options and investment funds; maintaining records
- v. Introducing the CAP and providing access to ongoing education to CAP members
- vi. Providing plan communications to CAP members
- vii. Providing CAP member access to decision-making tools and investment information
- viii. Maintaining oversight of the CAP, including the performance monitoring and oversight of service providers and investment options, the review of fees and expenses, and of member education materials and decision-making tools
- ix. Providing members with access to education on the options available upon their termination or retirement (as applicable); and terminating the CAP.

## Section 6: Maintaining Oversight of a CAP

The CAP sponsor should periodically review all plan features, the service providers it engages, investment options available in the plan (including fees), records maintenance, member education and decision-making tools provided to members. The CAP sponsor should set the criteria and the frequency of the review (and/or triggering events to cause a review) of the various aspects of the CAP as outlined below. The CAP sponsor should consider any member feedback and complaints received as part of the review.

### 6.1 Reviewing Plan and Governance Framework

The CAP sponsor may periodically review the CAP's features to determine if they continue to meet the purpose and objectives of the CAP. As part of the CAP sponsor's review, they may look to:

- i. CAP members' satisfaction and observed behavior
- ii. Observed and projected outcomes the CAP is achieving
- iii. New plan features in the marketplace
- iv. The retirement income options available within the CAP, if applicable
- v. The appropriateness of current or alternative plan features to CAP members.

The CAP sponsor should periodically review its governance process, and in doing so consider this guideline to ensure that it is fulfilling its roles and responsibilities in providing the CAP.

## 6.2 Reviewing Fees and Expenses

The CAP sponsor should periodically review all member-borne fees and expenses for reasonability and competitiveness. The CAP sponsor is in a unique position to ask questions to obtain the information needed for effective decision-making, by both the CAP sponsor and the CAP member. The CAP sponsor should consider the following, when reviewing fees and expenses:

- i. Requesting a description and breakdown of the different categories of all member borne fees
- ii. Comparing the fees and expenses across service providers/ investment options to determine whether they are reflective of the going market rate (e.g., by periodically going to market or benchmarking)
- iii. Looking for opportunities to leverage possible economies of scale that may be realized (e.g., from the negotiation of fees and expenses for the CAP in conjunction with other CAP or non-CAP benefits plans that may be offered by the CAP sponsor)
- iv. Assessing the impact that the fees and expenses have over the long-term on CAP members' savings and retirement income, where applicable
- v. Assessing whether fees and expenses provide value for plan members including, but not limited to, net investment return, quality of education or other services.

While low costs are important, so too are the services, member education tools and investment strategies that often accompany higher cost options. These higher cost options may lead to better overall outcomes, given the unique characteristics and needs of the CAP members. The assessment of whether fees and expenses are delivering value for plan members will involve reviewing the performance of each of the CAP's service providers, investment options and funds, and its member education and decision-making tools. The CAP sponsor may consider obtaining the assistance of an independent service provider in reviewing the CAP's member-borne fees and expenses.

### 6.3 Reviewing Service Providers

The CAP sponsor should periodically review the performance of its service providers, including those providing financial planning or investment advice. In establishing criteria for the periodic review of service providers, CAP sponsors should consider:

- i. Evolving CAP requirements; updating the criteria to reflect the current marketplace, including fees and range of services available
- ii. Including a performance assessment of the service provider and the quality of its product or service
- iii. Reassessing any perceived or actual conflicts of interest
- iv. Assessing the CAP sponsor's satisfaction and CAP members' satisfaction regarding services rendered by the service provider.

## 6.4 Reviewing Investment Options and Funds

The CAP sponsor should periodically, and at least annually, review the performance of each investment option and fund in the plan. The CAP sponsor should review the appropriateness of the default option and the appropriateness of the plan's aggregate investment line-up, taking into account the characteristics of plan membership and the levels of member engagement and financial literacy. In establishing criteria for the periodic review of each investment option and fund, the CAP sponsor should ensure the investments continue to meet the criteria used in its selection and consider:

- i. Updating the criteria to reflect changes in the marketplace
- ii. Including a performance assessment, relative to its benchmark, as applicable, over various time periods
- iii. Assessing whether the amount of fees associated with the investment options are reasonable and achieve value for plan members given the actual and expected investment performance
- iv. Ensuring that risks, returns, and characteristics of the investment options are aligned with expectations
- v. The impact of any changes to the investment manager's firm, team, or investment strategy members' investment behavior and usage of the investment fund.





*Hear From a Benefits Professional*

## Investment Performance Review of Pension Plan Assets Supporting DC Component of Plans

Given the discussion at today's meeting, Liana knew there would be a lot of work on this project. Liana's goal is to make sure the appropriate (and agreed-upon) governance activities for the DC component of the plan are completed. Imagine you have stepped into Liana's role as retirement consultant. Apply what you have learned from RPA 2 to answer these questions.

1. **Liana mentioned that the investment performance discussion was part of a cycle that occurs every year. In the context of the DC component of the plan and the changes discussed at the meeting, describe how the investment changes decided on by Best Autos' Pension Committee call for activities related to other steps within that cycle for Best Autos' pension plans.** (Learning Outcomes 1.14, 1.18 and 2.4, Study Guide Module 11, pp. 14-15 and 20; Reading A, Capital Accumulation Plan Investment Cycle, Study Guide Module 11, pp. A-12, A-14 to A-15 and A-17; Appendix 1, CAP Guidelines Section 5.2.2, p.23)

The investment cycle of CAPs entails five steps. Monitoring performance on an ongoing basis is the final step in the cycle. As a result of the decisions made at the meeting, additional activities are required. These activities include:

- (a) Reviewing their investment objectives and constraints as they consider replacement funds for those managed by the firm that is being terminated.
- (b) Selecting the specific replacement fund(s) that align with those investment objectives based on the availability of such funds under the terms of their contract with the insurer.
- (c) Providing information to members about the change to their investment lineup.

**2. Based on the content of Best Autos' SIPP, describe the considerations that will be made by Liana as she prepares a report for Dennis and Simon about an alternative fund manager, fund for the manager and fund being terminated.** (Appendix B, Statement of Investment Policies and Procedures for the Pension Plan for Windsor Hourly Paid Employees of Best Autos, Study Guide Module 12, pp. 49-60; Learning Outcomes 1.14 and 1.18, Study Guide Module 11, pp. 14-15; Reading A, Capital Accumulation Plan Investment Cycle, Study Guide Module 11, pp. A-12 and A-14 to A-15; Appendix 1, CAP Guidelines, Sections 6.3 and 6.4, pp. 26-27)

Liana will review the SIPP to identify:

- (a) The general types of investments that Best Autos intends to use for the DC component of their plan
- (b) The specific categories of investment options that are to be included in the fund lineup
- (c) The criteria to be considered when selecting an investment option for the plans' DC components
- (d) The specific information that will need to be provided to plan members about any new investment options.

Once she confirms all of this information, she will review the contract between Best Autos and the insurer handling the DC components of their plans to identify the available investment managers and funds. Her firm may maintain a library of that information, but she will likely confirm that information with the insurer and, in any event, she will require the fee levels that will be applicable to the Best Autos plan for any alternative investment options. She will then have sufficient information to prepare a report providing comparative information about the choices open to Best Autos.

Once Best Autos has decided upon the new investment option(s), the SIPP will be amended to reflect the changes and to identify the effective date of the change. The SIPP amendment will be filed in advance of that effective date. Communication to plan members will occur after the decision of the fund manager and specific investment option has been made.



**3. In the context of the DC component of Best Autos' pension plan, describe the best practices the CAP Guidelines suggest when a significant change is made to the investments.** (Learning Outcome 2.4, Study Guide Module 11, p. 20; Appendix 1, CAP Guidelines, Section 5.2.2, p.23)

The CAP Guidelines suggest plan sponsors provide notice to CAP members when there are significant changes in investment options. Removing investment options, as was decided at the meeting between Liana, Dennis and Simon, is considered a significant change. The notice of the change should be provided in advance of its effective date, and it should include, among other items, the rationale behind the decision to remove the investment option. When an investment option replaces an option that has been removed, information about the new option should be provided that includes the same details that are given to CAP members about plan investments when they join the plan.



## Quiz Answers

1. **B** (Learning Outcomes 4.1, 4.2, 4.3, 5.2 and 5.4, Study Guide Module 6, pages 13-14 and 18-19; Reading A, Text Commentary, Study Guide Module 6, pages A-5 and A-8)
2. **C** (Learning Outcome 1.2, Study Guide Module 10, page 8, Reading A, Defined Benefit Pension Plan Investment Cycle, Study Guide Module 10, pages A-3 to A-4; Appendix B: Statement of Investment Policies and Procedures for the Pension Plan for Windsor Hourly Paid Employees of Best Autos, Study Guide Module 12, page 52)
3. **D** (Learning Outcome 1.2, Study Guide Module 10, page 8; Reading A, Defined Benefit Pension Plan Investment Cycle, Study Guide Module 10, pages A-3 to A-6; Appendix B: Statement of Investment Policies and Procedures for the Pension Plan for Windsor Hourly Paid Employees of Best Autos, Study Guide Module 12, page 52)
4. **C** (Learning Outcomes 2.1 and 2.2, Study Guide Module 8, pages 8-9; Reading A, Investment Regulations for Employer Sponsored Retirement Plans, Study Guide Module 8, pages A-3 to A-4)
5. **D** (Learning Outcome 1.18, Study Guide Module 11, page 15; Reading A, Capital Accumulation Plan Investment Cycle, Study Guide Module 11, pages A-13 to A-14; Appendix 1, Guideline No. 3, Guideline for Capital Accumulation Plans (CAP Guidelines) Sections 6.3 and 6.4, pages 26-27; Appendix B, Statement of Investment Policies and Procedures for the Pension Plan for Windsor Hourly Paid Employees of Best Autos, Study Guide Module 12, pages 57-58; Appendix C, Investment Performance Summary—Defined Contribution Investment Options for Best Autos Ontario Pension Plans, Study Guide Module 12, pages 65-67)
6. **D** (Learning Outcomes 4.1, 4.2, 4.3 and 6.1, Study Guide Module 6, pages 13-14 and 23; Reading A, Text Commentary, Study Guide Module 6, pages A-5 to A-7 and A-10; Text, pages 805-807 and 810-812)
7. **C** (Learning Outcome 2.4, Study Guide Module 8, page 10; Reading A, Investment Regulations for Employer-Sponsored Retirement Plans, Study Guide Module 8, page A-4; Study Guide Module 12, page 33)
8. **D** (Learning Outcomes 2.1 and 2.2, Study Guide Module 10, pages 10-11; Reading A, Defined Benefit Pension Plan Investment Cycle, Study Guide Module 10, page A-6, Learning Outcome 3.3, Study Guide Module 8, page 13; Reading A, Investment Regulations for Employer-Sponsored Retirement Plans, Study Guide Module 8, page A-5, Reading B, CAPSA Guideline No. 6, Pension Plan Prudent Investment Practices Guideline, Study Guide Module 8, page B-7)
9. **A** (Learning Outcomes 7.5 and 7.6, Study Guide Module 2, pages 28 and 29; Reading A, Text Commentary, Study Guide Module 2, pages A-10 to A-11, Study Guide Module 12, page 40)

Dennis and Simon looked at each other at the end of the exercise. *“Well, what do you think?”* asked Dennis. *“Will we be able to convince John that our group has been doing a good job managing and overseeing the pension plan investments? And, perhaps more importantly, help him to see that the Time Is Right proposal is not a good fit for our pension plans?”*



Simon replied, *“As we fine-tuned this quiz and identified the key points, I realized that it will be very hard for him to disagree with that. Also, this exercise reinforced my feeling that our team has worked very effectively in this area over the past few years. We all had a steep learning curve about pension plans in general, and our plans do have some complicated aspects to them.”*

*“I agree,”* said Dennis. *“Let’s not get ahead of ourselves, but I do think we are prepared. I will get a meeting scheduled with John, and then we can get on with some of the outstanding issues that Liana identified.”*