February 20, 2019

Updated CAPSA Guideline No. 8 Provides Best Practices for Variable Benefits

The Canadian Association of Pension Supervisory Authorities (CAPSA) has released an updated version of ***Guideline No. 8: Defined Contribution Pension Plans Guideline*** (Guideline). This Guideline was first introduced in March 2014 to clarify the rights and responsibilities of defined contribution (DC) plan stakeholders – including administrators, service providers and members – and to provide guidance to administrators on the tools and information they should give members during the accumulation phase, when approaching the payout phase and during the payout phase.

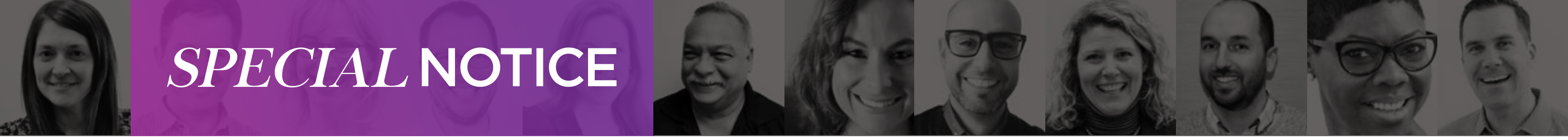
As DC pension plans continue to mature and more members reach retirement age, the revised Guideline is a response to stakeholder requests for more detailed direction on best practices relating to the payout phase. It also provides some additional requirements concerning fee disclosure. This notice provides an overview of the main changes introduced in the updated Guideline.

Summary of Key Changes

Application and purpose – The updated Guideline applies not only to stand-alone DC pension plans, but also to the DC component of hybrid or combination plans. References to a DC pension plan in the Guideline also refer to those DC components.

The Guideline offers guidance to DC plan administrators on tools and information to provide to members receiving a variable benefit. A variable benefit product is a retirement option, permitted in some jurisdictions, that pays out retirement income directly from the DC plan while also giving retirees some flexibility to determine how much income they withdraw annually and how their money is invested. It allows a member to move from the accumulation phase to the payout phase within the plan, while continuing to benefit from sponsor oversight and lower group fees.

Relationship to existing CAPSA Guidance on DC plans – The Guideline confirms that the Capital Accumulation Plan (CAP) guidelines apply only to tax-assisted plans where members make investment decisions, whereas Guideline No. 8 applies to all DC pension plans, regardless of whether members make investment decisions.



Responsibilities for administrators and plan sponsors – The Guideline expands on the responsibility of a plan administrator to consider relevant factors when selecting investment options for members, including:

- Nature of the investment;
- Risk/return profile and historical returns;
- Number of investment options available;
- Level of fees and reasonableness compared to the market; and
- Impact of fees on returns.

It also provides further guidance for plan sponsors on information they should consider giving members who participate in a variable benefit product, including: the importance of determining their withdrawal amount each year; using the provided information to determine the impact of their choices on future retirement income; and ensuring they periodically re-evaluate their risk profile and investment choices. This could be supported by giving members access to a projection tool.

Information for members during the accumulation phase – The Guideline notes that plan administrators should provide useful and relevant information on fees payable by the member (including asset-based fees) on at least an annual basis, or when fees or investment options are changed. It also provides more detailed instructions on the required information to be included in annual statements and termination statements.

Plan administrators are expected to provide details regarding the anticipated value of the plan member's accounts at retirement and the level of benefits that could be generated from that value, disclosing assumptions used to arrive at these estimates, and should clearly indicate that actual future values or benefits will likely differ from the estimates.

Information for members approaching or during the payout phase – The Guideline offers extensive new guidance on DC plans with a variable benefit product, noting that these plans require a continued relationship with the member even during the payout phase.

There are entire new sections devoted to variable benefit product administration, including:

- Responsibility to disclose changes in investment options to the member, with sufficient detail on the available options for the member to make informed investment decisions;
- Responsibility to disclose any changes in fees or additional fees charged when entering the payout phase;
- Providing information on risk tolerance, longevity and investment risks, and their possible impact on the member's retirement income;
- Providing information on how members' accounts will be invested if they do not provide investment instructions; and
- Other potential information on withdrawal amount options and income estimates based on investment return assumptions.

Reflecting DC dynamics – CAPSA has also expanded the type of advice members are recommended to obtain (if they need help managing their DC plans) to include financial planning and retirement advice, as well as investment advice. The intent is to help promote the understanding that DC outcomes are based on much more than investment selections – such as when you join the plan, how much you contribute and how much you will need in retirement to maintain your lifestyle.

Impact on Plan Sponsors and Other Stakeholders

We applaud CAPSA for updating the Guideline, providing direction for both plan sponsors and members on their respective roles in DC plan management. The revised Guideline provides more detailed expectations for operating DC plans and reflects concerns raised by stakeholders in the five years since the introduction of the original Guideline.

Eckler's comments to CAPSA's draft consultation paper have identified some additional areas that could be included or clarified, but which were not addressed in the final version, including:

- Direction on managed account solutions; and
- Direction for plan sponsors that offer a group LIF or RIF during the payout phase. The current Guideline attributes no responsibility to plan sponsors offering these solutions and is solely focused on variable benefit products. Since group decumulation options are becoming more popular, greater clarity on the roles and responsibilities involved in managing them would be helpful.

While the CAPSA guidelines do not have any legislative authority, they do reflect CAPSA's view of best practices and the regulator's expectations for operating DC plans. Plan administrators and sponsors should review their current practices to ensure they match the revised recommendations, and develop strategies to address any gaps.

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