Alberta Government

Interpretive Guideline #12

Issued: March 2017 (Revised)

Governance, Investment and Funding Policies and Plan Assessments

This Guideline is designed to explain the provisions of the *Employment Pension Plans Act* (the Act) and the *Employment Pension Plans Regulation* (the Regulation) as they relate to the creation and maintenance of plan governance, investment and funding policies and to provide guidance in assisting plan administrators in reviewing the operation of their plan on a regular basis. This Guideline summarizes the legislative requirements that apply and includes additional details to outline the Superintendent of Pensions' (the Superintendent) expectations and requirements where such authority has been provided by the Act and Regulation. Finally, the Guideline outlines practices and policies that the Superintendent expects from Alberta regulated pension plans.

The Act and Regulation should be used to determine specific legislative requirements. Any legal authority of this Guideline rests in the areas in which the legislation delegates authority to the Superintendent to accept a proposal or action.

The objective of this Guideline is to assist plan administrators in improving the overall effectiveness of the operation of their plan in as efficient a manner as is possible.

What is Governance

Governance, as it relates to pension plans, is the process and structure, which is used to ensure that the plan administrator meets its fiduciary and legislative obligations. The governance structure defines how oversight, monitoring, and delegation are applied to the plan administrator.

The Canadian Association of Pension Supervisory Authorities (CAPSA) issued in December 2016 a revised CAPSA Guideline No. 4 Pension Plan Governance Guideline. On page 2 of this document, it defines pension plan governance as follows:

"Pension plan governance refers to the structure and processes in place for the effective administration of the pension plan to ensure the fiduciary and other responsibilities of the plan administrator are met."

In the establishment and administration of a pension plan, a governance structure is required given the trust and the fiduciary obligations that the plan administrator has in relation to the plan members.

A well-constructed governance policy that is followed by the plan administrator provides greater security for the benefits promised and provides the plan administrator with a resource when questions of liability come into play.

Legislated Requirements

The Act requires that every pension plan must have a written:

- governance policy (Section 42);
- statement of investment policies and procedures (Section 43) (unless all the investments are directed by plan members under a defined contribution provision); and
- funding policy (Section 44), if the plan has a benefit formula provision (a defined benefit or a target benefit provision) in its plan text document.

Sections 53, 54 and 55 of the Regulation set out the topical matters that must be covered by each of the above policies.

It is part of the role and duties of the plan administrator to ensure that the applicable policies are established and that they are reviewed regularly to ensure that the policies continue to meet the requirements of the legislation and support the operations of the plan administrator.

The Act also requires that the plan administrator conduct a plan assessment of the administration of the plan on a triennial basis (Section 41)

The objective of these policies and the assessment process is to assist the plan administrator in improving the overall administration of the plan. There is no prescribed format or length for the policies or assessment report. The plan administrator can design these to fit their needs providing they meet legislative requirements and are appropriate to the plan's size and complexity. For example, these can range from detailed documents with no need to refer to other organizational processes or policies or less detailed documents with reference to other organizational processes or policies. Similarly, the required policies can each be stand-alone documents or can be components of a larger document. Other things being equal, it would be reasonable to expect that the policies and assessment process would be more detailed for larger and more complex pension plans than for smaller and simpler plans. The plan administrator's focus should be on content rather than format.

CAPSA Guidelines

CAPSA has developed a number of Guidelines to assist plan administrators in developing the above policies and conducting the assessment of the plan:

Governance Policy:

CAPSA Guideline No. 4 Pension Plan Governance Guideline and Frequently Asked Questions (2016)

CAPSA Guideline No. 5 Guideline on Fundholder Arrangements (2011)

Statement of Investment Policies and Procedures:

CAPSA Guideline No. 6 Pension Plan Prudent Investment Practices Guideline (2011)

Funding Policy:

[CAPSA Guideline No. 7 Pension Plan Funding Policy Guideline](#) (2011)

Plan Assessment:

[CAPSA Guideline No. 4 Pension Plan Administrator Governance Self-Assessment Questionnaire](#)

Governance Policy (For all plans)

On or before December 31, 2017, a plan administrator of a pension plan must ensure that the governance policy is established pursuant to section 42 of the Act. Section 53 of the Regulation sets out the areas that must be covered in the governance policy:

53(a) sets out the structures and processes for overseeing, managing and administering the plan;

(b) explains what those structures and processes are intended to achieve;

(c) identifies all participants who have authority to make decisions in respect of those structures and processes, and describes the roles, responsibilities and accountabilities of those participants;

Items to consider for the above 3 points include:

- Is the plan governed by a Board of Trustees or is the employer plan sponsor the party with final authority on matters related to the plan?
- Where the plan is governed by a Board of Trustees, the following need to be addressed in the governance policy:
  - How is it structured and how are trustees chosen?
  - What compensation is paid to Trustees and how are the compensation rates determined and by whom?
    - Is the compensation paid disclosed in the plan's financial statements and communicated to plan members?
    - Is compensation based on an annual or monthly basis and/or on a per meeting basis?
    - Is compensation disclosed on a board aggregate basis or itemized by each board member?
    - Is compensation payable to each Trustee paid by the sponsoring organization (e.g. the employer or union) or by the plan, either directly to the Trustee or to their sponsoring organization?
  - What is the policy relating to reimbursement of expenses incurred by trustees and how are the rates of reimbursement determined and by whom? Are the expenses reimbursed disclosed in the plan's financial statements and communicated to plan members? Are expenses disclosed on a board aggregate basis or

itemized by each board member? Are expenses payable to each Trustee paid by the sponsoring organization (e.g. the employer or union) or by the plan, either directly to the Trustee or to their sponsoring organization?

- Is there an employee pension committee and, if so, how is it chosen? Are retirees represented?
- Who is the day to day (small "a") administrator (the plan sponsor or a third party administrator)?
- Who holds the assets of the pension fund (insurance company or trust company or combination)?
- What is the reporting structure and who has final authority?
- What decision making authority has been delegated and to whom?
- As it is common for many or all of the administrative or investment functions to be delegated to an external third party such as a third party administrator, fundholder, investment manager or outsourced chief investment officer (OCIO), the responsibility still remains with the plan sponsor or (capital "A") Administrator. Accordingly, the plan administrator must define the skill sets and expertise that must be possessed by the external party, including prudence and standards of care.

(d) sets performance measures and establishes a process for monitoring, against those performance measures, the performance of each of the participants identified in clause (c) in those structures and processes who has the authority to make decisions in relation to those structures and processes;

Items to consider:

- What are the expectations of the parties involved in the plan administration?
- Who is responsible for assessment of those expectations?
- How and when will assessment be done?

(e) establishes procedures to ensure that the plan administrator and, as necessary, any other participants in those structures and processes have access to relevant, timely and accurate information;

Items to consider:

Access to information is key to meeting their responsibilities. The governance document should outline who has access to specific types of information and what protocols are in place if on occasion someone needs access to additional information.

(f) establishes a code of conduct for the administrator and a procedure to disclose and address conflicts of interest;

Item to consider:

The governance policy should include a code of conduct for the plan administrator and should clearly outline what constitutes a conflict of interest and how it should be dealt with. The code of conduct and conflict of interest policy may be separate, stand-alone documents or may be combined into one document. The governance policy may:

(i) Incorporate a separate code of conduct and conflict of interest policy in the governance policy,

(ii) Incorporate extracts of the organization's code of conduct and conflict of interest policy in the governance policy, or

(iii) Refer to the organization's code of conduct and conflict of interest policy in the governance policy providing it explicitly states that those having pension administration or fiduciary responsibilities must act in the best interest of plan members.

(g) identifies the educational requirements and skills necessary to perform the duties associated with those structures and processes;

Items to consider:

Functions such as plan administration require certain education, skill sets and credentials. The governance policy should indicate what those skill sets are for each of the parties noted in the structure section of the policy and how these will be measured when persons or parties are hired or appointed. In addition, the policy should define if the skills are required in order to be appointed to a decision-making body, or may or must be acquired following appointment as well as the time frame to acquire these skills and how training is to be provided and assessed. Finally, the policy needs to define the actions that will be taken if an appointee does not acquire the required skills within the pre-defined time frames.

(h) identifies material risks that apply to the plan and establishes internal controls to manage those risks;

Items to consider:

Identifying and mitigating risks are key factors when making material decisions about the plan. There are various types of risk depending upon the type of plan, the maturity of the plan, the nature of the plan sponsors and plan member demographics. All significant risk factors should be identified and a process for mitigating the risks should be stated

(i) establishes a process for the resolution of disputes involving members and other persons who are entitled to benefits under the plan.

Items to consider:

The policy should outline a dispute resolution process to identify and resolve any differences between the plan administrator and a member who is entitled to benefits from the plan. Should there be an internal appeal process and, if so, how would that work?

The policy should also state who is responsible for the establishment and maintenance of the policy and how the policy can be amended.

Statement of Investment Policies and Procedures (SIPP) (For all plans where the plan sponsor directs some or all of the investments)

Where some or all of the investment of funds is directed by the plan sponsor, the plan must have a SIPP. If some of the funds are invested by the members and some by the employer, then the plan must have a SIPP with respect to those funds invested by the plan sponsor.

For a plan with a benefit formula provision (defined benefit or target benefit) or where funds related to the defined contribution provision are invested by the employer, Section 54 of the Regulation lists the items that should be addressed in the SIPP.

54(1) Subject to subsection (4), the administrator of a pension plan must, before the plan is registered, ensure, on behalf of the plan, that a written statement of investment policies and procedures is established.

(2) In establishing the statement referred to in subsection (1), the administrator must have regard to all factors that may affect the funding and solvency of the plan and the ability of the plan to meet its financial obligations, including, without limitation, the following:

(a) categories of investments, including derivatives;

(b) diversification of the investment portfolio;

(c) asset mix and the basis on which that mix was determined, including by reference to volatility and rate of return expectations;

(d) liquidity of investments;

(e) the lending of cash or securities;

(f) the retention or delegation of voting rights acquired through investments;

(g) the method of, and the basis for, the valuation of investments that are not regularly traded at a public exchange;

(h) related party transactions permitted under section 17 of federal Schedule III and the criteria to be used to establish whether a transaction is nominal or immaterial to the plan.

(3) The statement referred to in subsection (1) must include

(a) a description of the factors to which the administrator had regard when establishing the statement, and

(b) how those factors were applied to establish the policies and procedures set out in the statement.

(4) If investments are entirely directed by the members, a statement of investment policies and procedures is not required.

In a defined contribution provision where members make the choice as to how their funds are invested, a SIPP is not required. However, decisions should be documented as to what and how many investment options are to be provided by the plan and why they were selected. Documenting how the investment options were chosen is a prudent measure for an administrator to take along with supporting rationale for the fees payable by the member for each investment option. Documenting which default investment was chosen and why it was chosen is also a good measure to demonstrate due diligence with respect to the administration of the plan fund. Information on the investment options, the default fund and the fees payable should be disclosed to members.

The policy should also state who is responsible for the establishment and maintenance of the policy and how the policy can be amended.

Funding Policy (For all plans with a defined benefit or target benefit provision)

The purposes of the funding policy are:

- to define for the plan sponsor the level and timing of funding they wish to commit to (e.g. minimum standards, full funding of all liability costs, and the degree and pace at which funding objectives are to be achieved including the plan sponsor's tolerance for risk and variability in returns.); and
- to provide the plan actuary with sufficient insight into the plan sponsor's funding philosophy.

The funding policy must meet the requirements of Section 55 of the Regulation. This requires an administrator of a pension plan to establish a funding policy and that and that it contains the following:

55(a) sets out the funding objectives for the plan as it relates to the following items:

(i) benefit security;

(ii) benefit levels;

(iii) if applicable, stability of contributions;

(iv) if applicable, contribution levels;

(b) identifies the material risks that impact the plan's funding requirements, the tolerances for those risks, and establishes internal controls to manage those risks;

(c) sets out expectations for the going concern funded ratio and, if applicable, the solvency ratio of the plan;

(d) sets out the expectations for the amortization of unfunded liabilities and, if applicable, solvency deficiencies;

(e) sets out the expectations for the reduction of benefits under section 20(2) of the Act, in the event that the circumstances of the plan require a reduction of benefits for

(i) a jointly sponsored plan,

(ii) a negotiated cost plan, or

(iii)a target benefit provision;

(f) sets out the expectations for the utilization of actuarial excess and surplus;

(g) establishes a standard for the frequency of actuarial valuation reports, whether or not those actuarial valuation reports are filed with the Superintendent.

The policy should also state who is responsible for the establishment and maintenance of the policy, how the policy can be amended and who has the authority to approve amendments.

For further assistance in establishing a funding policy, please refer to CAPSA Guideline No. 7 – Pension Plan Funding Policy Guideline.

The governance, investment and funding policies are “living documents”. They should be reviewed and revised as needed and at least every three years coincident with the triennial plan assessment. They should also be referred to when decisions are being made with respect to plan administration, investment and funding to ensure decisions are consistent with these policies. If a decision or action taken varies from the applicable policy, the policy should be revised to reflect the change or proper documentation explaining the variance should be in place.

Plan Assessments (For all plans)

A plan administrator needs to perform an assessment of the administration of the plan at least every three years. The first assessment must be performed within 12 months after the plan year end ending on or after December 31, 2016. For plans with a plan year end of December 31, the first plan assessment must be completed by December 31, 2017. For plans with a year end after December 31, 2016, the first plan assessment must be completed within 12 months after the plan’s year end. The next one needs to be performed no later than three years after the previous one. A written report on the assessment must be prepared and be retained by the plan administrator

In the interest of making the assessment process as efficient as possible, the use and completion of CAPSA Guideline No. 4 Pension Plan Administrator Governance Self-Assessment Questionnaire is acceptable to the Superintendent as a written assessment. Plan administrators may develop their own assessment framework and report or use one developed by an external third party rather than using the Guideline 4 Questionnaire. Regardless of the approach taken, the written assessment must cover the items shown below. The key focus is to be on content and not length or format.

For those plans which wish to use the Guideline No. 4 Questionnaire as the basis for their report, the most relevant principle in the CAPSA Guideline where the answer should be documented is shown in ( )

- Review of Governance, SIPP and Funding Policies (Principle 11)
- The plan’s compliance with the Act and Regulation (Principle 8)
- The plan’s governance (Principle (Principle 2)
- The funding of the plan (Principle 4)

- The investment of the pension fund (Principle 4)
- The performance of the trustees, if any (Principle 4)
- The performance of the administrative staff and any agents of the administrator (Principle 4)

Where a plan administrator chooses to use the Guideline No. 4 Questionnaire as the template for their written assessment, all questions in the Questionnaire should be completed.

For further information please contact:	
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