The Certified Employee Benefit Specialist® Program

RPA1 Managing Retirement Plans Part 1

Study Materials Update—April 2022

This material is required reading for purposes of the CEBS program and the national exams for the RPA 1 course administered on or after April 15, 2022.

This update corrects earlier printings of the RPA 1 Study Guide, Second Edition in light of recent legislative changes. This update covers Modules 1, 2, 4, 5, 7, 8, 9 and 11 of the Study Guide (First Printing: December 2021).

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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 1.

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 29 and 30, Text Commentary: Remove Pages 29-32 from your Study Guide and replace them with the new pages that follow. The replacement pages focus on the following legislative change not reflected in the text:

In the context of the discussion of types of pension plans and acceptable shared risk type plans across pension jurisdictions, in addition to its member-funded pension plans, Quebec has allowed target benefit plans since 2020.

Reading

Text Commentary

The Text Commentary expands upon or provides current and relevant applications to the Text reading. It should be read in conjunction with the Text.

Arguments for and Against Pension Plans, Text, Pages 10-11

The Text refers to "RPP," an abbreviation that stands for registered pension plan.

The final item in the first bulleted list on page 11 uses the term "money purchase." "Money purchase" can be used interchangeably with the term "defined contribution." "Defined contribution" is now more commonly used.

This final item does not particularly apply to registered pension plans, except as it might pertain to innovative designs for defined contribution (or money purchase) plans that might be designed to improve the employee's interest in the profit objectives of a company.

Types of Employer-Sponsored Retirement Income Plans, Text, Page 12

To clarify, this chapter of the Text deals with registered pension plans. Other registered types of plans, such as group RRSPs, deferred profit-sharing plans and TFSAs are discussed in Chapter 14 of the Text. Nonregistered supplementary arrangements are discussed in Chapter 13 of the Text.

Table on Types of Pension Plans, Text, Page 14

Despite showing two types of plans under "defined contribution plans," under the middle column of the table, both subtypes shown are very similar. As noted above, the term "money purchase" plan is now rarely used. The only difference between the two subtypes shown is in the method used to determine the amount of the employer contributions (and differences also apply under each subtype). Replace the middle column of the table with the following.

Defined Contribution Plans
(the more common term for money purchase plan)

- An employer-sponsored arrangement where employer and employee contributions are defined
- Contributions may be a fixed percentage of earnings, a fixed dollar amount, or a specified amount per year of service or per hour worked.
- A profit-sharing pension plan is a type of defined contribution plan where employer contributions are linked to the profitability of the company and vary from year to year.
- All defined contribution pension plans require a minimum employer contribution equal to 1% of earnings.

For the purpose of this course, the term "defined contribution plan" is used to refer to both of what the Text refers to as "money purchase" and "profit-sharing" pension plans.

Types of Employer-Sponsored Pension Plans, Text, Pages 12-15

Page 15 notes the various jurisdictions allowing defined risk plans. At the end of the first paragraph on Page 15, insert the following sentence:

Since 2020, Quebec also allows target benefit plans.

Defined Contribution Plans, Text, Pages 18-19

As noted above, both subtypes shown in this section of the Text are similar and can simply be referred to as defined contribution pension plan.

Plans With Defined Benefit and Defined Contribution Characteristics, Text, Page 19

Insert the following as a final paragraph under section ii. Combination Plans:

The Text states that combination plans are quite rare (they represent less than 2% of all pension plans in Canada). However, combination plans are sometimes created when an employer wishes to cease operating a defined benefit pension plan and sponsor a defined contribution plan for future years. DB benefits are "frozen" (i.e., members stop earning defined benefits) and no new members may join that section. Existing and new plan

members participate in the defined contribution section effective from the date of the change. Membership in the defined benefit section of the plan is then limited and will reduce over time.

Pension Formula, Text, Pages 67-70

The Text includes several examples showing the pension formula for defined benefit plans. In most cases, the examples include reference to the "years of service." Note that this should be interpreted to mean "pensionable" service, normally meaning the employee's period of membership in the plan versus their total period of employment with the employer.

Career Average Earnings Plan, Text, Page 70

The Text identifies that career average plans are usually updated from time to time. Note that such a plan that is not updated will often provide a benefit that is only 50% of a final average earnings plan with the same unit.

In practice, the cost to the employer of an upgrade to the career average earnings formula may limit the size and frequency of an upgrade.

Capital Accumulation Plans (CAPs), Text, Pages 71-72

The Text introduces this term as one that includes DC pension plans and other non-pension registered plans such as RRSPs, DPSPs, etc. For the purposes of this module, references in the Text to "CAP" should be read as "defined contribution pension plan." A more specific definition of "CAP" is widely used within the retirement plan industry and is discussed later in this course.

Variations in Design for Different Groups, Text, Page 26 and Uniformity in the Plan, Text, Pages 72-73

While the Text, page 26, uses the example of the pension formula for a DB pension plan, it is also possible for the sponsor of a DC pension plan to include different contribution levels for different classes of employees, as long as discrimination by age, sex, marital status or other characteristics protected by human rights legislation does not occur.

Pensionable Service, Text, Page 73

To clarify, all pension plans, regardless of the nature of the "pension formula," must define the period of service for which the employee will earn pension benefits.

Note that the term "membership" is also often used to define this period.

Retirement Age, Text, Page 76

The Text refers to normal retirement age as the age when an employee can retire on a full, unreduced pension and that sometimes unreduced pensions are payable at an earlier date. This statement is applicable to DB pension plans only. In a DC pension plan, the concept of a "full" or "unreduced" pension does not apply as the retirement pension is based on the value of the member's account balance at time of retirement rather than by a pension formula.

Phased Retirement, Text, Pages 78-79

The Income Tax Act (ITA) permits continued accrual of pension benefits in a DB pension plan, while in receipt of benefits from the same plan, or another plan of the same or related employer, under certain conditions. Monthly payments in the amount of up to 60% of the accrued pension may be made to eligible members. The tax rules do not impose any requirements that a member reduce work hours to receive a pension payment, and the amount of the pension need not be linked to any work reduction.

Bridging benefits are also permitted to be paid, either on a standalone basis or in conjunction with phased retirement benefits, during the phased period.

During phased retirement, a member will generally be considered an active member, and the payment of phased retirement benefits will not be treated as a commencement of pension in pay. Phased retirement benefits are treated as temporary, payable over the phased retirement period only. The phased retirement period ends when the member terminates employment or the plan terminates. On full retirement, the member makes any elections as to the form of the lifetime pension.

At the time of entering phased retirement, no election as to the form of pension is made. For retirees who choose to return to employment under a phased retirement arrangement, any prior election as to the form of pension will be of no effect. The death benefit, portability rights and information provisions that apply to active members will apply to members in phased retirement.

Study Guide Module 2

Study Guide Learning Outcome 5.1 has an error. The final sentence is incorrect. There is a requirement to report pension adjustments (PAs) for DPSPs.

Go to page 16, Learning Outcome 5.1, last paragraph: Remove what is ~~crossed out~~

5.1 Describe the reasons that an employer may prefer a standalone Group RRSP, or a Group RRSP and DPSP, over a DC registered pension plan. (Text, pp. 414 and 421; Reading A, Text Commentary, Study Guide Module 2, p. 28)

A Group RRSP on its own, or in combination with a DPSP, offers two primary advantages to the employer.

(a) Minimal regulatory requirements (since pension standards legislation does not apply) mean that administration and governance activities relating to the plan are relatively small, resulting in low levels of administration costs.

(b) Plan design is very flexible, and changes can be accomplished easily.

Both of these advantages mean that an employer is able to offer a plan to employees that is both cost- and tax-effective for all stakeholders.

The inclusion of a DPSP that relates employer contributions to company profits may also provide an incentive for plan members to increase profitability and focus on the employer's financial success.

Specific examples of the impact of these advantages include the following.

(a) There is no need to register a plan document with a governmental regulatory agency.

(b) Lock-in requirements do not apply.

(c) There is more flexibility when establishing plan provisions such as eligibility and varying employer contributions among employees.

(d) There are no restrictions on beneficiary designations.

(e) There is no mandatory joint and survivor pension to be paid to a spouse.

(d) There is no requirement for a pension committee (as there is for Quebec RPPs and Manitoba RPPs with at least 50 members).

(e) There is no requirement for plan member annual meetings (as there is for Quebec RPPs).

ITA regulations relating to a DC pension plan are also avoided~~, so there is no requirement to report pension adjustments (PAs)~~.

Benefits in Action #1—"Should we implement a registered pension plan?" has updated page references.

Go to page 37, Remove what is ~~crossed out~~ and make the changes are indicated in **bold.**

1. Given what you know about George's business needs and philosophy about employer-provided pension plans, identify the top two pros and cons of DB and DC pension plans for DITAPP. (Learning Outcome 2.1, Study Guide Module 1, p. ~~9~~ **7**; Text, pp. 11-12)

2. To ensure George understands the basic commitment and responsibilities required of an RPP plan sponsor, Rick is providing him with details on some of the minimum plan provisions. Identify three provisions you would present and explain their significance. (Learning Outcome 5.2, Study Guide Module 1, p. ~~17~~ **16**; Text, pp. 66-67, 71, 76, 80, 82-83 and 85-86; Reading A, Text Commentary, Study Guide Module 1, pp. 31-34)

3. Based on your knowledge and experience, explain why DITAPP might give serious consideration to implementing a non-pension registered plan instead of a DC **registered pension** plan. (Learning Outcome 5.1, Study Guide Module 2, p. 16; Learning Outcome 5.4, Study Guide Module 2, p. 18; Text, pp. 414 and 421-422; Reading A, Text Commentary, Study Guide Module 2, pp. 23-~~27~~ **28**)

Pages 44-47, Benefits in Action #1—"Should we implement a registered pension plan?": To enhance your learning, responses to all Apply Your Knowledge questions in the Benefits in Action #1 have been provided. Remove the current page 43 from your Study Guide and replace it with the new pages that follow.

"Good. So to sum up, you have a few options around setting up a CAP using non-registered non-pension vehicles. You could establish a Group RRSP that receives all contributions (employer and employee). This means some additional cost to DITAPP, relating to payroll activities, to deal with the payroll taxes related to the employer contributions and of course the payroll taxes themselves. By the way, if you want me to help you estimate those payroll taxes, that is something I would be happy to do. Longer term, you may also have slightly higher costs due to the immediate vesting of employer contributions made to the Group RRSP. Or you could use a combination of a Group RRSP to receive the employees' contributions and a DPSP to receive the company's contributions. The company's contributions could be based on the same schedule whether you use a Group RRSP or a DPSP. With a DPSP you will not incur any additional payroll taxes and can set up a vesting period that allows contributions made in respect of shorter-term members to be returned to DITAPP. You will be responsible for tax reporting around the company's DPSP contributions, but this is a one-time activity each year at T4 time."

Rick brought the meeting to a conclusion. ***"You've given me more options to consider. I'm going to create a summary along with my recommendation to George. I am thinking now that a viable and effective option for DITAPP is to introduce a Group RRSP in combination with a DPSP with matching employer contributions but, ultimately, George will have to come to this conclusion on his own terms."***

As they shook hands, Darshana promised to follow up with Rick shortly after George's return. Rick nodded and returned quickly to his office. There was much to be done, but he now had the information he needed and the support of a trusted professional. Rick was convinced that DITAPP would find an optimal solution.

Answers to Apply Your Knowledge

During their initial call, Rick shared with Darshana his concern about DITAPP workforce recruitment and retention issues and his need to provide a solid analysis for his final recommendation to George. Put on your pension advisor hat and answer these questions:

1. **Given what you know about George's business needs and philosophy about employer-provided pension plans, identify the top two pros and cons of DB and DC pension plans for DITAPP.** (Learning Outcome 2.1, Study Guide Module 1, p. 7; Text, pp. 11-12)

   Pros:

   (1) Establishing a pension plan at DITAPP will help address what appears to be a competitive labour market in their local industry.

   (2) Pension plans are tax effective for both the employer and employees.

   Cons:

   (1) A registered pension plan, regardless of type (DB or DC), means additional governance and administration activities for DITAPP.

   (2) Flexibility in plan design and management is constrained by pension standards legislation—something that normally conflicts with the values of an entrepreneur, such as George.

2. **To ensure George understands the basic commitment and responsibilities required of an RPP plan sponsor, Rick is providing him with details on some of the minimum plan provisions. Identify three provisions you would present and explain their significance.** (Learning Outcome 5.2, Study Guide Module 1, p. 16; Text, pp. 66-67, 71, 76, 80, 82-83 and 85-86; Reading A, Text Commentary, Study Guide Module 1, pp. 31-34)

   Plan provisions vary depending upon the type of pension plan—DB or DC. All must meet the requirements of CRA and the Ontario pension regulator. Three key provisions for each type of pension are:

   (1) For All Types of Plans:

   (a) Membership:

   Who will be offered membership in the plan? Determination of who will be eligible must be based on employee classifications (management, salaried, hourly and part-time) that do not contradict human rights legislation.

   (b) Participation:

   When will eligible employees be allowed (or be required) to join the pension plan? Pension plans can be a condition of employment (i.e., mandatory participation) or voluntary. Pension standards legislation, in most jurisdictions, requires that employees in eligible "classes" be able to join the employer's pension plan within two years of employment.

   (c) Employee contribution level

   Will employees be required to contribute to the pension plan? For a DB plan, this equates to cost sharing with the employer and ultimately impacts the affordability of the plan for the sponsoring company and level of benefit. For a DC plan, this directly relates to the level of retirement income that the plan will provide to the member.

   (2) For a DB Pension Plan:

   (a) Pension formula:

   How much pension should the plan provide at retirement? In other words, how much of an individual's ultimate retirement income should come from this plan? Should this be the same for all employee classifications? CRA places upper limits on the amount of pension and, if pensions differ by employee classification, human rights legislation does have to be considered.

   (b) Basis for pension credits:

   How should employees' pensions be determined? Should they be b ased on earnings each year, average earnings over some period immediately preceding retirement, a fixed pension for each year of membership or something else?

(c) Retirement ages:

At what age should the plan's pensions start, and what should happen if an individual wants to retire at some other date?

All these factors affect the ultimate cost of a DB plan borne by DITAPP. Initially, an actuary will identify the estimated plan costs based on the finalized plan design, but these costs will change as time passes and the plan's investment returns and demographic features change. These factors also influence employees' perception of the value of the pension plan as an important part of their overall compensation.

(3) For a DC Pension Plan

(a) Level of employer contribution:

How much is the company willing to contribute to each member's pension plan account? Besides identifying the cost to the company, this key plan design feature drives the amount of pension available to the employee when they retire. It also contributes to employees' perception of the value of the pension plan.

(b) Employee contributions:

Will employees be required to contribute, and if so, at what level? Will any flexibility be allowed for the amount of employee contributions?

(c) Basis for employer contributions:

Will employer contributions relate to the level of employee contributions? In other words, will there be a "matching" requirement, and if so, how will the matching formula work?

All these factors affect the ultimate level of retirement benefit available to employees of DITAPP from a DC plan when they retire, and of course, the employees' perception of the value of the pension plan.

Regardless of the type of pension plan, and provisions, all the above plan design considerations must ultimately be documented in the plan text and submitted to the pension regulators for approval at the time of implementation. Changes to any plan rules will mean preparation of formal amendment documents and filing of those documents with the pension regulators at the time of the change.

3. **Based on your knowledge and experience, explain why DITAPP might give serious consideration to implementing a non-pension registered plan instead of a DC registered pension plan.** (Learning Outcome 5.1, Study Guide Module 2, p. 16; Learning Outcome 5.4, Study Guide Module 2, p. 18; Text, pp. 414 and 421-422; Reading A, Text Commentary, Study Guide Module 2, pp. 23-28)

   Although George sounds like he has a positive attitude toward a DC registered pension plan, he may not have all the facts. It sounds like Rick and Darshana will be able to fill him in. The two advantages of a pension plan noted above in #1 can apply equally to a non-pension registered plan, without the noted disadvantages of additional employer activities (and costs, whether direct or indirect) and required compliance with pension standards legislation that limits flexibility in some areas, or as a minimum requires more actions on the employer's part in order to implement.

   The combination of a DPSP for company contributions and a Group RRSP for employee contributions can match the design of a DC pension plan (offering more flexibility on vesting, in some jurisdictions, including Ontario). This arrangement can also easily be used to provide employees with additional contributions in years when DITAPP is particularly successful. As an entrepreneur, George could see this as a positive factor and that could provide some advantages over his competitors when employees know they will be financially rewarded when the company does well.

   Communication of the plan's purpose is important (i.e., the DITAPP Retirement Plan—a single plan using two different tax-assisted vehicles). If it is intended to be a replacement for a DC registered pension plan, it should be described that way, and in-service withdrawals of the company's contributions should be prohibited (which is possible in a DPSP). If additional profit sharing, or incentive, contributions are intended to be dependent upon the company's success, they should be described as being discretionary.

   An alternative is a group RRSP that receives both the company's and employees' contributions. In this case, the employer has flexibility to vary contributions, although there may be some cost effect representing additional payroll taxes related to the company's contributions. It may also be more difficult to prevent in-service withdrawals of the company's contributions, which vest immediately. Although possible to present the restriction, it is important to reinforce it in every communication to employees. Employees often appreciate the fact that the employer facilitates the RRSP contributions through payroll deductions, and this forced savings is a great benefit to employees who are not disciplined enough to save on their own. Another advantage is that the funds are not locked in, offering more flexibility for employees. Group RRSPs can also allow for income splitting with spouses if the employee contributes to a spousal plan. Therefore, it offers additional benefits to both the employer and employees, compared to a DC pension plan.

Study Guide Module 4

Pages 25 and 26, Text Commentary: Remove the current pages 25 and 26 from your Study Guide and replace them with the new pages that follow. The replacement pages focus on the following legislative changes not reflected in the text:

Manitoba and Newfoundland and Labrador now allow for unlocking of monies in the event of financial hardship and Manitoba allows unlocking for persons post–age 55. Page 267 in the Text goes into detail about the rules for each jurisdiction.

Exceptions to Locking-In (Unlocking), Text, Pages 265-268

Page 267, paragraph 4 of the Text states that "financial hardship unlocking from a pension plan is not allowed." This refers to the fact that it is not possible for an active member of a pension plan to access benefits under the plan (that is, "unlock" the monies). However, a pension plan member who has terminated membership in the pension plan and subsequently transferred their pension plan benefit to a locked-in vehicle such as a Locked-In Retirement Account or locked-in RRSP may apply to the administrator of that vehicle for reasons of financial hardship.

Manitoba and Newfoundland and Labrador now allow the unlocking of pension funds in the case of financial hardship.

Manitoba now also allows former members who meet certain age requirements to unlock pension funds. An individual who has reached age 65 may unlock the full value of any funds held in a locked-in retirement account or life income fund. Upon reaching age 55, an individual may make a one-time 50% transfer from one of those locked-in vehicles to a prescribed registered retirement income fund.

Portability, Text, Page 268

Reference to "transfer the commuted value" is applicable to a DB pension plan only. In a DC pension plan, the benefit at termination of employment is simply the value of the member's account balance in the DC pension plan.

Variable Benefit Accounts Within Defined Contribution Pension Plans, Text, Page 270

While the majority of jurisdictions allow for variable benefit payments from DC pension plans, few DC pension plans actually offer this type of option for a retiring member. There is a clear benefit for the retiring member, who should be able to access lower investment fees through their employer-sponsored plan than through a retail investment product. However, governance requirements associated with continued membership of retirees can be seen as onerous by plan sponsors, and even if this is not the case, service providers (primarily insurers) must be willing to establish variable benefit accounts within the pension plan. For smaller DC pension plans, these two matters may impede members' access to variable benefit accounts.

Normal, Early, Postponed and Phased Retirement, Text, Pages 270-271

As discussed in Module 3, the concept of “normal” retirement and the payment of a pension without reduction is based in the operation of DB pension plans. The requirement for a pension plan to contain rules concerning the normal retirement date exists for DC pension plans as well but has less importance as plan costs are not impacted by the choice of the normal retirement date.

Options available to employers when determining their plan rules for employees who continue to work after reaching normal retirement age are basically the same as those for DB pension plans.

Death Benefits Before Pension Commencement, Text, Pages 271-272

This section of the Text refers to death benefits as “commuted value of the vested pension.” This description is applicable to a DB pension plan only. In a DC pension plan, the preretirement death benefit in most jurisdictions is 100% of the value of the member’s DC account.

Death Benefits After Pension Commencement, Text, Page 273

This section of the Text refers to the requirement that a retiree’s eligible spouse has the right to a survivor pension and that for the retiree to elect any other form of pension, a spousal waiver is required. In a DC pension plan, a retiring member may elect to purchase a life annuity or use their DC account to establish a Life Income Fund (LIF), or similar vehicle, depending upon the jurisdiction. A spousal waiver is required if the chosen life annuity does not offer the minimum required survivor pension or if the LIF or other allowable vehicle is elected.

Cost Sharing (50% Rule), Text, Page 273

Plans registered in British Columbia follow the federal rule that allows exemption from the 50% rule if the plan provides for annual indexing of deferred pensions.

Study Guide Module 5

Page 25, Text Commentary: Remove the current page 25 from your Study Guide and replace it with the new page that follows. The replacement page focuses on the introduction of a revised CAPSA Guideline No. 7 not referenced in the text.

Benefits in Action #2—"What should you know about governance before introducing a workplace pension plan?" has updated page references.

Go to page 64, Remove what is ~~crossed out~~ and make the changes are indicated in **bold.**

1. Alice briefly discussed the range of tasks that pension plan administrators need to perform. Describe the alternative methods that administrators can use to fulfill their responsibilities for those tasks and how the alternative approaches may impact the plan's governance structure. (Learning Outcome 2.1, Study Guide Module 5, p. 8; **Learning Outcome 5.1, Study Guide Module 5, p. 18; Reading B, CAPSA Guideline No. 4, Pension Plan Governance, Study Guide Module 5, p. 34;** Text, pp. 93-94 and 97)

2. The fifth slide, "What are the fiduciary responsibilities held by a pension plan administrator?," mentions that conflicts of interest may arise when the plan administrator is also the plan sponsor. Describe how this can impact a single-employer pension plan. (**Learning Outcome 2.2, Study Guide Module 5, p. 8;** Text, pp. 93-94)

3. Alice mentioned that a pitfall for administrators pertains to the investment of pension fund assets. For a DC pension plan, identify factors that need to be considered during the periodic review of the investment options. (Learning Outcome 5.7, Study Guide Module 5, p. ~~18~~ **21**; Reading C, CAPSA Guideline No. 3, Guidelines for Capital Accumulation Plans (CAP Guidelines), Study Guide Module 5, pp. **42 and** 52-53)

Pages 73-75, Benefits in Action #2—"What should you know about governance before introducing a workplace pension plan?": To enhance your learning, responses to all Apply Your Knowledge questions in the Benefits in Action #2 have been provided. Remove the current page 73 from your Study Guide and replace it with the new pages that follow.

While an employer may take the view that it can reduce its fiduciary risk in a Group RRSP by clearly communicating that its role is simply to act as an agent, that risk remains. This is because those employers that remove themselves from plan oversight and management may actually increase the risk that the Group RRSP will not perform as expected.

The best way for a capital accumulation plan (CAP) sponsor to ensure its fiduciary duties are met, related risks are properly managed and member outcomes are maximized is to develop and implement effective plan governance. This includes adhering to best practice regarding proper oversight, communication and education, providing choices, monitoring fees and encouraging independent advice.

Legislative Guidance on Pension Governance, Text, Pages 109-111

The requirements described in this section do not apply to nonpension CAPs. Despite the lack of legislative force, many of the policies described in this section are appropriate for the sponsors of nonpension CAPs to consider when developing a governance framework for their plan.

Industry Guidelines Supplement Legislation, Text, Pages 111-113

As with the legislative governance requirements, the CAPSA Pension Plan Governance Guidelines do not specifically apply to nonpension CAPs such as Group RRSPs. However, consideration of this Guideline by nonpension plan sponsors may be helpful; a comparison of this Guideline and the CAP Guidelines reveals a number of similarities in content and process.

Recent CAPSA Guidelines, Text, Page 127

CAPSA issued a revised Guideline No. 7, Pension Plan Funding Guideline in 2021. The revised Guideline includes expanded content relating to multi-employer pension plans and target pension plans, legislated funding requirements and key considerations for plan sponsors at time of developing a funding policy.

Good governance is good business!

- Good governance of retirement plans can:
  - Contribute toward an ***"effective"*** retirement plan—money well spent and happy employees!
  - Help organizations avoid penalties and litigation—avoid additional costs and complications.
- Good governance need not be onerous—Guidance is available through industry guidelines and service providers.

Speaker Notes
We could talk for most of the day about retirement plan governance. Before we adjourn, I'd like to reiterate our primary message about good governance with this last slide and leave some time for questions.

Alice and I will be here for a bit to answer any questions that you might have.

Answers to Apply Your Knowledge

Katzuya read Alice's e-mail. He called her to share some valuable feedback in addition to offering her three questions he felt the audience might ask. Put on your pension advisor hat and respond to Katzuya's questions:

1. **Alice briefly discussed the range of tasks that pension plan administrators need to perform. Describe the alternative methods that administrators can use to fulfill their responsibilities for those tasks and how the alternative approaches may impact the plan's governance structure.** (Learning Outcome 2.1, Study Guide Module 5, p. 8; Learning Outcome 5.1, Study Guide Module 5, p. 18; Reading B, CAPSA Guideline No. 4, Pension Plan Governance, Study Guide Module 5, p. 34; Text, pp. 93-94 and 97)

   The plan administrator may perform some, or all, of the duties themselves, or may delegate certain activities to external service providers. While the activities may be delegated, the fiduciary responsibility remains that of the plan administrator.

   Principle 5, of CAPSA Guideline #4, identifies that when a plan administrator delegates certain responsibilities, it is the responsibility of the plan administrator to consider whether the delegates have the needed qualifications, resources and experience to perform the assigned duties. In the event that the plan administrator handles certain tasks themselves, there is a responsibility to provide access to any necessary education to allow successful completion of those tasks.

   As a result, plan governance requires supervision and ongoing monitoring of all delegated tasks.

2. **The fifth slide, "What are the fiduciary responsibilities held by a pension plan administrator?," mentions that conflicts of interest may arise when the plan administrator is also the plan sponsor. Describe how this can impact a single-employer pension plan.** (Learning Outcome 2.2, Study Guide Module 5, p. 8; Text, pp. 93-94)

   The plan sponsor, or employer, may act in the best interests of the company. From time to time, this may conflict with the best interests of the pension plan members and other beneficiaries. The plan administrator, which can also be the employer, holds a fiduciary responsibility to the plan and its members. Sometimes this is referred to as the "two hats" doctrine. A robust plan governance program can help balance the competing interests associated with the two roles.

3. **Alice mentioned that a pitfall for administrators pertains to the investment of pension fund assets. For a DC pension plan, identify factors that need to be considered during the periodic review of the investment options.** (Learning Outcome 5.7, Study Guide Module 5, p. 21; Reading C, CAPSA Guideline No. 3, Guidelines for Capital Accumulation Plans (CAP Guidelines), Study Guide Module 5, pp. 42 and 52-53)

   Several factors need to be considered, when selecting investment options, including:

   (a) Pension standards legislation that may limit the types of acceptable investment options

   (b) The purpose of the CAP—such as whether it is intended to be the primary retirement savings vehicle for employees or is it more of a short-term, tax-assisted savings plan

   (c) The diversity and demographics of the plan members

   (d) The desired degree of diversification among the options and whether the selected options provide plan members with diversified styles of investment management and manager objectives

   (e) The desired number of options to make available and their characteristics, including their respective levels of risk, liquidity and associated fees

   (f) The type of performance measures that are considered appropriate for assessing the investment options

   (g) The administrator's ability to periodically review the investment options

   (h) The attributes of any investment funds to be offered—such as investment objectives, fund manager's investment strategies and the manager's historical performance

   (i) The success of the investment option at meeting the selected performance measures being used in the selection process.

   At the time of the administrator's periodic review of the plan's investment options, factors to be considered should include:

   (a) An assessment of whether each selected investment option continues to meet the criteria used in the initial selection process

   (b) The actions to take to remedy the situation if the selected options are not meeting expectations. The type of action may depend upon additional factors such as:

   - The time period over which the criteria have not been met
   - Complaints raised by plan members
   - The availability of similar investment options within the plan, and generally the range of other investment options that are offered
   - The effect upon members of making a change.

Study Guide Module 7

Pages 1 and 2: Remove the current Pages 1 and 2 of your Study Guide and replace them with the new pages that follow. The replacement pages include the missing Learning Outcome for the Benefits in Action #3, "What do financial statements reveal about pension costs and obligations?"

Benefits in Action #3—"What do financial statements reveal about pension costs and obligations?" has updated page references.

Go to page 53, Remove what is ~~crossed out~~ and make the changes are indicated in **bold.**

1. What areas of LeClair's IAS 19 accounting schedule would you highlight for your clients, and why? (Learning Outcomes **5.1,** 5.7~~-~~ **and** 5.8, Study Guide Module 7, p**p. 21 and** 24; Text, pp. ~~169-174, 177~~ **175**-178~~;~~ **and** 180-181~~)~~

2. Why is it important for Bernie's team to be able to interpret the key information disclosed in both the IAS 19 accounting schedule and the pension valuation extract? (**Learning Outcome 1.6, Study Guide Module 7, p. 8;** Text, pp. ~~165-166 and~~ 175-177)

Pages 63-65, Benefits in Action #3—"What do financial statements reveal about pension costs and obligations?": To enhance your learning, responses to all Apply Your Knowledge questions in the Benefits in Action #1 have been provided. Remove the current page 63 from your Study Guide and replace it with the new pages that follow.

Optimizing Plan Funding and Financial Reporting

Module 7

Sponsors of defined benefit (DB) pension plans are required to contribute to their plans in accordance with minimum funding requirements set by Canadian pension standards legislation. Increasingly, those sponsors are developing formal funding policies that help guide their decisions around possible future funding levels.

Separately, private sector plan sponsors must disclose certain information about their pension plans to their shareholders (and often to their lenders) within their financial statements.

This module focuses on how these contributions and disclosures are determined.

Three key subjects are covered:

- Reasons for and against funding of pension plans, and the objectives of formal funding policies
- How plan actuaries determine DB pension plan funding levels within the Canadian regulatory environment
- The treatment of pension plan obligations under financial accounting standards and recognition of those obligations within the plan sponsor's financial statements.

Assigned Reading

Text
Chapter 6, Pages 165-183

Reading A
Text Commentary, Study Guide Module 7, Pages 27-41

Benefits in Action #3
"What do financial statements reveal about pension costs and obligations?"
Study Guide Module 7, Pages 43-65

Learning Outcomes

1. Explain the rationale and approaches commonly used for funding defined benefit (DB) pension plans and the objectives and contents of pension funding policies.
2. Outline the different methods actuaries use to express defined benefit (DB) pension plan funding requirements.
3. Identify the types of assumptions made by actuaries when determining defined benefit pension (DB) plan funding levels.
4. Describe the application of Canadian Institute of Actuaries (CIA) Standards of Practice to defined benefit (DB) pension plans.
5. Identify the purpose and application of accounting standards for pension plans.

Benefits in Action #3
"What do financial statements reveal about pension costs and obligations?"

1. Apply knowledge of financial information reported following International Accounting Standards (IAS) 19 to interpret pension costs and liabilities.
2. Evaluate whether the pension advisor's response to the client covered the basic financial concepts needed to understand the significance of a pension obligation to a business purchase decision.

4. ***It is possible for Bernie's Best to sponsor a defined contribution plan, assuming LeClair Confections is agreeable to retaining the existing combination plan. Under that scenario, your financial reporting requirements in Canada will be very similar to those in place for your U.S. pension plan.***

"Thank you for spending the time with us today," said Johanna as she closed her laptop.

Daniel responded, ***"We have a lot yet to think about, but I believe I speak for both of us when I say that we have greater understanding of how to interpret these numbers, the financial risk inherent in a DB plan compared to ours and the significance of all this for the negotiations around this potential purchase."***

"I agree," Fred commented. ***"It was a pleasure to meet both of you. Because of your thorough presentation, I have a much better sense for the Canadian pension reporting requirements. I'm also starting to think about how we can position the discussion around responsibility for past pension plan obligations."***

"Please contact us if you have any additional questions," Claudine offered. ***"We're here to help so that you can focus on what you do best."*** Claudine and Johanna stood to shake hands as the meeting concluded.

Answers to Apply Your Knowledge

Bernie's team wants further assistance interpreting the financial information provided by LeClair Confections on its defined benefit (DB) plan. They want a very clear understanding of what they would be taking on financially if they bought LeClair Confections. Put on your pension advisor hat and respond to these questions:

1. **What areas of LeClair's IAS 19 accounting schedule would you highlight for your clients, and why?** (Learning Outcomes 5.1, 5.7 and 5.8, Study Guide Module 7, pp. 21 and 24; Text, pp. 175-178 and 180-181)

   Accounting schedules are intended to identify whether a DB pension plan represents an asset or liability to the sponsor of the plan and to identify a very specific type of "cost," the "net periodic pension expense/income," of that pension plan to that sponsor. Both are determined on a basis that will allow readers of the sponsor's financial statements to know that there is some uniformity around this reporting between different sponsoring businesses.

   With this in mind, two key components of IAS 19 accounting schedules will be the Net Defined Benefit Liability/Asset (starting on line 15 of the provided schedule) and the Net Periodic Pension Expense/Income (starting on line 25 of the provided schedule). Items shown on the earlier lines develop the numbers for these two key sections.

   Also, key to understanding these schedules is the basis shown in lines 40 through 44—Changes in the basis from year to year will impact the schedules. Comparing the discount rates at the beginning and end of the year in question can provide knowledge of why there may be a gain or loss relating to the defined benefit obligation shown in the section "Other Comprehensive Income."

2. **Why is it important for Bernie's team to be able to interpret the key information disclosed in both the IAS 19 accounting schedule and the pension valuation extract?** (Learning Outcome 1.6, Study Guide Module 7, p. 8; Text, pp. 175-177)

   The information revealed by both financial reports (the IAS 19 schedule and the valuation extract) will impact negotiations around the ultimate price to be paid should the sale to Bernie proceed. The valuation report extract also identifies the cash flow requirements for the upcoming years. (Note—It is likely that more than just the full valuation report will be requested at some point in the negotiations.)

3. **How would you explain the relevance of plan type as defined under IAS 19 for Bernie’s decision-making process and, if he buys LeClair, his obligations moving forward?** (Learning Outcome 5.4, Study Guide Module 7, p. 22; Reading A, Text Commentary, Study Guide Module 7, p. 39; Text, pp. 177-178 and 183)

   Bernie is familiar with the operation of defined contribution plans, both in terms of required contributions and how the U.S. accounting standards apply to those plans. He correctly mentioned how simple these types of plans are from these perspectives, and this simplicity applies equally to DC plans in Canada.

   Negotiations around the purchase are likely to include some consideration of the impact of the frozen DB plan upon the financial position of the company, while a DC plan would not require this.

   Should the purchase move forward, Bernie will need to understand that his financial statements will include much more information about the defined benefit pension plan, should he continue to sponsor the plan, and those statements will show pension expense amounts that are not directly related to the funding required under Canadian pension standards legislation.

   Ongoing, should the purchase proceed and the frozen DB plan continue in existence, there will be costs associated with the actuarial and auditor’s services, related both to maintaining compliance with pension standards legislation and to the preparation of the IAS 19 Accounting Schedules, which would not be incurred should a DC plan been in place.

Study Guide Module 8

Go to page 7, Learning Outcome 1.2 in your Study Guide: Make changes indicated in **bold** and remove what is ~~crossed out.~~

Update the seventh row of the table so it reads:

Province/ Jurisdiction	SIPP Required for DB Plan and Administrator-Directed Plan	SIPP Required for Member-Directed DC Plan	SIPP Must Be Filed With Regulator
Alberta	Yes	No	No
British Columbia	Yes	No	Yes
Manitoba	Yes	Yes	No
New Brunswick	Yes	Yes	Yes
Newfoundland & Labrador	Yes	Yes	No
Nova Scotia	Yes	No	No
Ontario	Yes	~~Yes~~ **No**	Yes
Prince Edward Island	No	No	No
Quebec	Yes	Yes	No
Saskatchewan	Yes	No	No
Federal	Yes	No	No

Go to page 11, Learning Outcome 1.8 in your Study Guide: Cross out Learning Outcome 1.8 in your Study Guide. This content has been removed from the course.

~~**1.8 Describe requirements for the content of a SIPP for an Ontario-registered member-directed DC plan.** (Text, pp. 188-189; Reading A, Text Commentary, Study Guide Module 8, p. 31)~~

~~Ontario has incorporated the investment regulations of the federal Pension Benefits Standards Act, and although the federal regulations no longer apply to the investment of federally registered member-directed DC plans, Ontario continues to require a SIPP for its member-directed DC pension plans. The expectation is that the SIPP be prepared in accordance with the plan administrator's required standard of care. Accordingly, for member-directed DC pension plans, the requirements of the federal regulations must be met and the administrator should follow the recommendations of the Guideline for the Development of Investment Policies and Procedures for Federally Regulated Pension Plans.~~

~~In addition, it is expected that the administrator will give due consideration to include this information in the SIP&P:~~

~~(a) General investment principles that shape the defined contribution investment program~~

~~(b) Permitted asset classes from which investment funds can be selected~~

~~(c) The default investment option for member accounts when no selection is made~~

~~(d) Monitoring of service providers~~

~~(e) Selection, monitoring and terminating investment managers and funds~~

~~(f) Plan expenses and investment fees related to the DC plan~~

~~(g) Related-party transactions~~

~~(h) Information guidelines for plan members on investment options. The policy should identify at a high level the categories of information to be provided to plan members concerning their investment choices under the plan.~~

~~This information may be set out in a separate document and incorporated by reference into the SIPP or may include the information in the SIPP directly.~~

Pages 31 and 32, Text Commentary: Remove the current Pages 31 and 32 from your Study Guide and replace them with the new pages that follow. The replacement pages focus on the following changes.

In fall 2021, Ontario published a draft regulation to the Ontario Pension Benefits Act, with a consultation period that ended in November 2021. On February 11, 2022, they published the final version of the regulation, which affects Ontario's requirements for SIPPs and audited financial statements. Effective immediately (and retroactively to cover plans with December 31, 2021 year-ends):

1. SIPPs will no longer be required for plans registered in Ontario that operate 100% as a member-directed defined contribution pension plan, and
2. Audited financial statements will no longer be required for such plans that hold $10 million or more in assets. *Note:* All member-directed defined contribution pension plans registered in Ontario still must file financial statements, but those statements need not be audited.

Reading

Text Commentary

The Text Commentary expands upon or provides current and relevant applications to the Text readings. It should be read in conjunction with the Text.

SIPP Content, Text, Page 186

The table on this page notes that Ontario requires a SIPP for a member-directed DC plan. Regulations to the Ontario Pension Benefits Act were changed in February 2022 to eliminate the SIPP requirement for plans that operate as a member-directed DC plan. Combination plans with both defined benefit and member-directed defined contribution components still require a SIPP.

SIPP Content, Text, Page 188

The first sentence of the paragraph that starts "For Ontario registered pension . . ." should read, "For Ontario registered combination plans that include both defined benefit and member-directed defined contribution pensions . . ."

Text, Page 189

Note that the paragraph immediately preceding "Review, Approval, and Filing" is applicable only to administrators of plans that are required to prepare a SIPP. For example, for a federally registered DC plan that is member-directed, this paragraph is not applicable, as a SIPP for such a plan is not required.

Risk Management, Text, Pages 189-192

This section of the Text discusses investment risk. Note that this discussion is applicable to the management of investment risk as it impacts defined benefit (DB) pension plans.

Manager Selection, Text, Page 195

The Text provides details of the steps involved when selecting an investment manager for a pension fund. Part of this process requires that the essential attributes of the desired manager be identified. These attributes may include the following:

(a) Expertise in a specific asset class

(b) An established and stable investment team

(c) A minimum level of assets under management

(d) A stable overall organization with low levels of portfolio management turnover

(e) "Acceptable" levels of performance and performance volatility in recent years

(f) Reasonable fee levels.

Text, Page 201

Add the following as a new section, immediately preceding 6. Alternative Investments:

Traditional Types of Investments

Categories of investments most represented in employer-sponsored pension plans include bonds, stocks, mortgages and real estate. Pension plans can either hold investments directly or utilize pooled funds.

Bonds

Bonds are instruments of debt. They have a specific maturity date, at which the principal will be paid, and they normally bear interest until maturity (except stripped bonds, in which the coupons have been removed or stripped from the bond). The interest is usually paid semiannually. The rate of interest is referred to as the "coupon rate," as many bonds have coupons attached to them that provide for the payment of interest. Sometimes specific pieces of real property are pledged to secure the bond. In this case, the bonds are called "mortgage bonds." If there is no specific real property securing the bond other than the general ability of the issuer to make the payments, it is called a "debenture."

Some bonds (and preferred stocks) give the owner the option of converting them into common stock at a rate specified in the instrument, in which case they are called "convertible bonds." There are also numerous other types of bond market instruments including mortgage-backed securities, sinking funds, serial bonds, purchase funds, redeemable bonds, extendible bonds, retractable bonds, income bonds, perpetual bonds, stripped bonds and inflation-indexed bonds—Their features can be determined from their name in most cases.

Study Guide Module 9

Pages 25 and 26, Text Commentary: Remove the current pages 25 and 26 from your Study Guide and replace them with the new pages that follow. The replacement pages focus on the following legislative requirements applicable to multi-employer pension plans not reflected in the text:

Changes to the Manitoba Pension Benefits Act (PBA) made in late 2021 formally defined Specified Multi-Employer Pension Plans (SMEPPs), if the plan qualifies as such under the terms of the Income Tax Act.

Reading

Text Commentary

The Text Commentary expands upon or provides current and relevant applications to the Text reading. It should be read in conjunction with the Text.

Characteristics of a Multi-Employer Pension Plan, Text, Pages 355-357

Add the following **"Advantages/Disadvantages of MEPPs"** after the third bullet on page 357:

Advantages/Disadvantages of MEPPs

There are a number of advantages unique to MEPPs:

(a) Recognition of mobility of the workforce. MEPPs recognize and address the problem of the absence of a long-term employer-employee relationship, which is normally needed to qualify for pension benefits, by aggregating the pension credits earned during employment with various employers within the industry.

(b) Benefits of pooling. By participating in a MEPP, small employers obtain access to investment and consulting advice, which would be cost-prohibitive if they were to offer individual plans. For defined contribution (DC) MEPPs, the associated individual return and longevity risks are minimized through the pooling of assets, and members generally can expect to receive greater benefits than if they had been participating in equivalent-cost DC single employer pension plans (SEPPs).

(c) Administrative savings. Centralized administration increases benefits and/or reduces participating employer costs because it is shared across the entire group of participating employers.

(d) Contractual entrenchment of employers' obligation to contribute. Employers contributing pursuant to the terms of a collective agreement can be pursued by the union if there is a failure to make contributions or remit them on a timely basis. In addition, some boards of trustees insist on having participation agreements between the board and each participating employer to ensure that each employer is legally obligated and committed to contributing to the plan. Consequently, an employer cannot take this obligation lightly, nor avoid it simply because of financial difficulties.

(e) Ownership of funds. As a consequence of the collective agreement and/or trust agreement, there is less ambiguity with respect to who owns the MEPP funds. Furthermore, pension benefits are usually expressed as a fixed dollar amount or as an accumulation of contributions and, therefore, complications of ownership of a surplus do not often arise. Lastly, the trust agreement must also specify the conditions governing the funds when the plan is wound up or terminated.

MEPPs also have certain disadvantages, including:

(a) Recordkeeping. Because members of a MEPP tend to work with a number of participating employers over the course of their employment in a particular industry, the administrator must carefully track each member's service with an employer. Recordkeeping can become even more complicated if certain participating employers are habitually late in making contributions.

(b) Risk sharing as a result of joint governance. While it is true that under a MEPP, employees have a far greater role in the administration of benefits, they also share in the risks associated with a fund deficit.

(c) Implications of an unfunded liability or solvency deficiency. Some jurisdictions in Canada do not require that an unfunded liability or solvency deficiency in a MEPP be "topped up," and benefits—both for future service and, in many jurisdictions, benefits already earned—may be reduced.

(d) Incidence of fraud. Historically, it was relatively easy for criminally minded persons to become trustees. There have been incidents of fraud and personal enrichment involving MEPP funds, although the ability to engage in and the incidence of this type of activity have been greatly reduced over the past 25 years.

Manitoba, Text, Page 360

Delete the final paragraph of this section and replace with:

Changes were made to the PBA regulations in 2021 to provide for plan administrators to request designation as a Specified Multi-Employer Pension Plan (SMEP) if the plan qualifies as a SMEP under the terms of the Income Tax Act.

Study Guide Module 11

Pages 39-40, Benefits in Action #3—“What do financial statements reveal about pension costs and obligations?”: To enhance your learning, responses to all Apply Your Knowledge questions in the Benefits in Action #1 have been provided. Add the following pages to your Study Guide.

Answers to Apply Your Knowledge

Blaise and Chuck are at a crossroads as to how best to approach their talent acquisition and retention strategy. Put on your pension advisor hat and respond to these questions:

1. **Of all the talent acquisition and retention options available, why is it important to consider providing a supplementary retirement arrangement for CJD?** (Learning Outcome 1.1, Study Guide Module 11, p. 6; Text, p. 396)

   CJD's current owners now appear more open to planning for succession given the recent death of their other partner. They likely will want to find a strong candidate in mid-career who will be able to be with the firm for a reasonable period of time after Chuck and Blaise retire. CJD will require attractive compensation to attract senior talent within their industry, as qualified candidates may be coming from an environment where retirement benefits were significant (or would become significant with longer service).

   It has been shown that while CJD's current pension and DPSP programs offer attractive contribution rates, individuals at higher earning levels are unable to benefit from the full contribution rate due to taxation limits on contributions. A supplementary retirement arrangement structured as a "top-up" plan can ensure those defined contributions are available to both a new hire and existing employees at higher levels of earnings.

   In addition, should a new hire prove particularly successful, a separate supplementary retirement arrangement (operating as a "selected enrolment" arrangement) may be structured to provide benefits like those offered by defined benefit pension plans.

2. **It was mentioned that most supplementary retirement arrangements are noncontributory. What other provisions may appear and why might they be a concern for the company?** (Learning Outcome 1.5, Study Guide Module 11, p. 8; Text, p. 401)

   A supplementary plan might include a non-compete clause that prevents the plan member from engaging in certain activities following their employment with the sponsor of the supplementary plan. It is critical that such a clause be drafted in a manner that will stand up to legal challenges.

   A supplementary plan may also include wording that provides for its continuation after a change in control or organization of the employer sponsoring the plan. This type of clause could impact upon negotiations undertaken should the employer be part of a purchase or sale situation.

3. **Chuck could have concerns about funding a supplementary retirement arrangement. If they implement a supplementary plan, why might funding be advantageous for the employer as well as for participating employees?** (Learning Outcomes 2.1, 2.2, 2.4 and 2.5, Study Guide Module 11, pp. 10-13; Text, pp. 402-406)

   Funding of a "top-up" supplementary plan allows CJD to show employees that they ARE receiving the full pension and/or DPSP contributions, and that the funded portion can receive investment growth (albeit taxable) similar to growth on the contributions made to the registered plans. CJD will receive a tax deduction for the amounts paid into the supplementary plan, as these amounts are typically considered additional earnings or taxable benefits to the plan members.

   For a "selected enrolment" supplementary plan—for example, if CJD offers a new hire a special DB type of supplementary plan—the situation is different. Funding of such a plan may become a subject of negotiation with a new hire, who will naturally be concerned about the future financial fortune of their new employer.

   For Chuck and Blaise, regular funding of this type of plan may be more palatable from a cash flow perspective. They have alternative methods to secure the benefits of the supplementary plan—a funded RCA, letter of credit, life insurance policy or secular trust. Each of these arrangements have distinctive features and tax treatments, and the approach to funding will depend upon the purpose of the supplementary plan and the result of negotiations with any new hire who qualifies for its benefits.