

September 6, 2018

CAPSA Secretariat
5160 Yonge Street
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Email: capsa-acor@fsco.gov.on.ca

Re: Willis Towers Watson submission on draft revised Guideline No. 8 – Defined Contribution Pension Plans Guideline

Dear Sir or Madam,

Willis Towers Watson welcomes the opportunity to comment on CAPSA's draft revised *Guideline No. 8 – Defined Contribution Pension Plans Guideline* (Guideline).

Willis Towers Watson designs and delivers solutions that manage risk, optimize benefits, cultivate talent and expand the power of capital to protect and strengthen institutions and individuals. Willis Towers Watson employs more than 40,000 colleagues on a worldwide basis, with approximately 450 being engaged in providing services to sponsors of Canadian pension plans. The undersigned have prepared our response with input from others in the company.

Overall, we support CAPSA's proposed revisions, and have the following suggestions using the numbering and headings as found in the Guideline.

2.1 Responsibilities of the Plan Administrator

CAPSA is proposing to add the following paragraph after the list of bullet points:

When establishing a DC pension plan and throughout its existence, the plan administrator should take into account all relevant factors when selecting investment options to be made available to plan members. These should include the nature of the investment, its risk return profile and historical returns as well as the level of fees that members will pay. In particular, the administrator should consider the reasonableness of those fees compared to the market and the impact of those fees on returns.

While generally in agreement with the guidance outlined in this paragraph, we would like to point out that the plan administrator should be cautious in applying an historical returns analysis, as studies have shown that past performance is not necessarily predictive of future performance. However, such an analysis does have value in providing insights into investment style and consistency of application of the investment process. We would therefore suggest adding the words in italics, as outlined below:

When establishing a DC pension plan and throughout its existence, the plan administrator should take into account all relevant factors when selecting investment options to be made available to plan members. These should include the nature of the investment, its risk return profile and historical returns (*keeping in mind the fact that past performance is not necessarily predictive of future performance*) as well as the level of fees that members will pay. In particular, the administrator should consider the reasonableness of those fees compared to the market and the impact of those fees on returns.

3.3 Information and Tools Regarding Estimates of Account Balances and/or Benefits

CAPSA is proposing revisions to its existing guidance by recommending that the tools provided to plan members to help them understand and estimate their benefits on retirement should take into account applicable assumptions needed to project benefits, including the impact of fees. We would suggest a clarification that the requirement should be to project returns net of fees and not the impact of fees, which would require two sets of numbers.

In addition, CAPSA is proposing to modify a paragraph and add the following new paragraph:

Plan administrators should provide members, at least annually, with an estimate of the value of the member's account at retirement, as well as an estimate of the benefit that may result from the value.

Plan administrators should disclose the assumptions used to arrive at an estimated future benefit and/or value, including the assumed level of fees, and should clearly state how the estimate can be affected if different assumptions are used.

As these proposed paragraphs currently read, they seem to suggest that member statements include as a dollar amount the estimated value of the member's account at retirement. We suggest that, in addition, a modelling tool can be an effective way to provide such disclosure, which also allows members to adjust the variables and assumptions underlying these projections to see how those changes affect their projected income in retirement. We therefore believe that an explicit mention in revised Guideline No. 8 of the benefits of providing a modelling tool would be appropriate.

4.2 Variable Benefit Products

While generally in agreement with the guidance outlined in this paragraph, we would like to point out that, in our view, variable benefit products should be encouraged and undue burden should not be put on the Plan Administrator. In particular, the following two bullets are very general and it may be difficult to provide clear and understandable information to members.

Provide broad information about changes in risk tolerance when entering the decumulation stage.

Provide broad information around longevity risks and investment risk and the impact those risks could have on the member's retirement income.

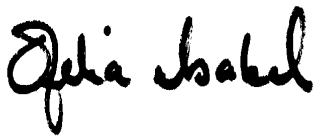
In particular, these two bullets could lead to Plan Administrators providing a list of risks and disclaimers that do little to actually help plan members. We would instead encourage decision-making tools being offered to members to support their understanding of variable benefit products.

5.1 Information Regarding Withdrawals from a Variable Benefit Plan

The footnote in this new Section indicates that, because in some jurisdictions there is no maximum withdrawal rate, plan members should be made aware of when their variable benefit account is expected to be depleted based on their current withdrawal rate. We agree and, as noted above in relation to Section 3.3, would recommend that this information be accessible to members via an appropriate projection tool.

We greatly appreciate the opportunity to comment on CAPSA's draft revised *Guideline # 8 – Defined Contribution Pension Plans Guideline*, and would be happy to answer any questions you may have.

Sincerely,



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