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04 September 2018

Subject: Guideline No.8 – CAPSA Consultation on Guideline No. 8 for DC Plans

We welcome the opportunity to provide comments on the CAPSA Guideline No.8 Defined Contribution Pension Plans Guideline (the "Guideline"), revised July 2018.

GENERAL COMMENTS

The proposed updates to the Guideline – in particular as they relate to variable benefit products – have the potential to improve the decumulation experience for Canadians and retirement outcomes. As written, the updates respond well to the changing regulatory DC Pension landscape in Canada and Mercer's feedback centers on suggesting greater clarity in certain areas as well as potentially expanding the guidance further in other areas.

With respect to variable benefit products, the Guideline could be improved by adding a section that addresses the recommended best practice during the transition into variable benefits. The Guideline can be a platform to help plan administrators manage the impacts of any inherent conflict of interests that arise when third party DC plan recordkeepers offer investment funds and decumulation products that are proprietary. We think it is worthwhile to review the proposed changes to the Guideline with this lens.

As a general comment, the Guideline focuses heavily on communication to and education of members of defined contribution pension plans. The document suggests that the plan administrator provide information to plan members. In our view, the plan administrator's role should be to ensure that the information in question is provided, rather than to provide the information directly. Plan administrators typically engage a recordkeeper to provide the necessary support and information to plan members. We would encourage CAPSA to engage with record keepers to determine whether CAPSA's recommendations – to the extent that they involve technology – can be met at the current time.

In that regard, we note that recordkeepers have not implemented the infrastructure required to facilitate variable benefits, despite there being regulations to permit variable benefits in various jurisdictions for some time. There also does not appear to be an intention to create this infrastructure in the near future.

Instead recordkeepers have been moving forward with alternate solutions such as Group LIFs and Group RRIFs to address certain decumulation issues. To this end, much of what has been outlined in the Guideline to address what needs to be done for members of ‘plans which offer variable benefits’ may have little impact on Canadians, practically speaking. From this perspective, many of these themes should be reflected in other documents, such as the CAP Guidelines for broader impact on the decumulation experience.

SPECIFIC COMMENTS

In the remainder of this letter, we have provided more specific comments on the Guideline, section by section.

- **Section 1.0 – Introduction:** The concept of variable benefits products is introduced in this section. It would be useful to define and/or provide the main characteristics of variable benefits products so that readers have a common understanding.

- **Section 2.1 – Responsibilities of the Plan Administrator**: This section now outlines “all relevant factors” that should be considered when selecting investment options to be made available to plan members. One of the most important factors, “qualitative considerations” is missing here and should be added. In addition, other major considerations include: appropriateness of the investment structure for plan members and whether the investments are aligned with the purpose of the plan.

- **Section 2.6 – Responsibilities of the Members**: The following three bullets are among those listed as responsibilities of members if they are “…participating in a variable benefit product”:

  – Use of any information and decision-making tools provided, to examine the impact of their withdrawal choices on their future retirement income.

  – Understand the impact of withdrawal choices on the amount of retirement income available for their lifetime.

  – Periodically use any information or decision-making tools provided to re-evaluate their risk profile and investment choices.

  Each of the three bullets above can be slightly amended to be applicable for all DC plans, regardless if variable benefits are offered. This guidance also has applicability during the accumulation phase. It is good guidance for members to use retirement tools and to understand the impact of withdrawal choices regardless whether or not the member is participating in a variable benefit product.

- **Section 3.0 – Information for members during accumulation phase**: The Guideline states that information provided to members should include “providing a description of fees payable by a member (directly or indirectly), including those fees set out in the CAP Guidelines”. Greater clarity should be provided to differentiate direct and indirect fees and in particular what indirect fees could include. The current wording is also unclear as to whether the description of fees should be shown on an unbundled basis or rather if it should be shown as a total fee and accompanied by a description of what that total fee includes. In order for recordkeepers to provide a fee disclosure in accordance with the Guideline, the exact requirements need to be clearly laid out.

- **Section 3.1 – Information Regarding Investment Choices**: Regarding the section that states “the plan administrator should provide members with…the nature and level of fees payable”, the Guideline should provide clarity on what “level of fees” refers to, be it a dollar amount or rate or both.

  In this same section, it states that the level of fees should be included in each annual statement and any termination statement. Again, we question what the “level of fees” refers to. If the level of fees requires that a dollar amount be disclosed, the Guideline needs to provide clarity on the time period that should be used to calculate the dollar amount of fees being paid (which is not obvious for the termination statement).

  Regarding the section that states “if terminating members have an option to move funds out of the plan and into specified investments with the current service provider, then the fees related to those specified investments should also be disclosed in the termination statement”. We believe an improvement can be made to this section by suggesting that these fees should be shown in a side by side comparison format against the fees currently being paid within the group plan.

- **Section 3.3 – Information and Tools Regarding Estimates of Account Balances and/or Benefits:** The section discusses the need for plan administrators to disclose the assumptions used to arrive at an estimated future benefit and/or value. Based on our experience, the assumptions used vary by DC plan recordkeepers. More specific guidance on how to set the assumptions will create a more consistent output regardless of the recordkeeper’s preferences. As an example, there could be guidance to suggest that a member’s actual asset mix should be considered when setting a rate of return assumption to estimate future savings or balances.

- **Section 4.1 – Information for members who are approaching the payout phase:** Regarding the section that states “plan administrators should provide information regarding the level of fees that the member is paying (directly and indirectly)…”, again, the Guideline should provide clarity on what “level of fees” refers to, be it a dollar amount or rate or both. Greater clarity should be provided to differentiate direct and indirect fees and in particular what indirect fees could include.

- **Section 4.2 – Variable Benefit Products** - The following bullets are among those listed as responsibilities of the plan administrator if "variable benefits are an option under the pension plan":

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

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

  Each of these points is also applicable for pension plans that do not offer variable benefits. Consideration should be given to broadening the application of this guidance.

- **Section 5.1 – Information Regarding Withdrawals from a Variable Benefit Plan** - The Guideline suggests that plan administrators consider providing, among other things: "information on sustainable withdrawal rates…" and "income estimates based on a range of investment return assumptions…and withdrawal patterns or an income projection tool that accommodates varying investment return assumptions and withdrawal patterns". As these tools are not yet industry standard nor are they on the horizon for implementation for many mainstream group plan providers, including this guidance can make it prohibitive for a plan to consider a variable benefit product for their plan. Consideration should be given on a more practical solution for providing information to members regarding withdrawals.

- **Section 6.0 – Adverse Amendments for DC Pension Plans** – This section provides examples of what may be considered an adverse amendment. Adverse amendment notice requirements should be addressed by legislation to avoid potential conflicts between these guidelines and legislation.

  In this section, "increasing of fees paid by members" is an example of what may be considered an adverse amendment. This guidance, as written, is problematic and should be removed or should be accompanied with a qualifying statement (or suggested threshold). Fees can change year over year due to fluctuations in underlying fund operating expenses et al. We do not believe that it is in the spirit of the Guideline to consider all fee increases as an adverse amendment.

  More broadly speaking, we support guidance to improve fee disclosure and think this is best addressed by providing guidance on how to disclose fees. For example, requiring fee disclosures to include examples of how fees are calculated could make fee disclosures more meaningful for members - many of who may not understand what an 'IMF' represents.

Thank you for the opportunity to provide our thoughts and comments on the Guideline. If we may be of further assistance in your deliberations, or if you wish to discuss our comments, please do not hesitate to contact me.

Sincerely,

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