Eckler
CONSULTANTS + ACTUARIES

Eckler Ltd.
110 Sheppard Avenue East, Suite 900
Toronto, Ontario M2N 7A3
Canada

www.eckler.ca

Writer's Tel 416 696-4947
Email jholman@eckler.ca

September 10, 2018

CAPSA Secretariat
16th Floor, 5160 Yonge Street
Toronto, ON M2N 6L9
capsa-acor@fsco.gov.on.ca

Re: CAPSA Consultation on Revisions to Guideline No. 8 – Defined Contribution Pension Plans Guideline

We are writing in response to the above-noted consultation released by CAPSA on July 26, 2018.

With over 300 employees, working from six offices in Canada, Eckler Ltd. is the country's largest independent actuarial consulting firm. Our roots trace back to 1927, making us one of the oldest firms in the industry. As a strategic priority for our firm, Eckler formed a dedicated defined contribution (DC) practice over eight years ago. Eckler is proud to say that we have one of the most senior teams of DC consultants in the industry and consult to both large and small plans across the country. We therefore thank CAPSA for the opportunity to provide feedback on the consultation.

In order to achieve the greatest possible benefit from participating in a DC pension plan, we believe that plan members must receive adequate and ongoing communication about their plan and their options and obligations in relation to it. This is particularly the case for DC plans that allow members to receive variable benefit payments from the plan in retirement. We therefore support the revision in Guideline No. 8 to add additional communication requirements regarding variable benefits, provide additional information on the assumptions used in retirement projections, and enhance fee disclosure. It is critical that these elements are properly communicated to plan members as the decisions they will make based on this information will have a dramatic impact on their quality of living in retirement. However, we do wish to make the following specific comments in response to specific aspects of the revisions reflected in the consultation:

- **2.6 Responsibilities of the Members:** This section describes member responsibilities to select among investment options provided. With third party providers introducing managed accounts to Canada, additional guidance on member and plan sponsor responsibilities when managed accounts are offered would be helpful. This could include what is required in terms of oversight and communication of: how the investments are managed, how frequently changes are made, what determines how the members' money is invested, any additional fees etc.

- **Information and tools regarding estimates of account balances and/or benefits: Section 3.3** of the revised Guideline states that the assumptions used "should be appropriate for the characteristics of the plan and plan members." We believe that this may result in plan administrators using broad industry assumptions (such as an across-the-board 70% income replacement ratio) that may not be appropriate for particular plan members. Rather than recommending such general assumptions, we believe that the revised Guideline should advocate for the use of assumptions that are appropriate for individual plan members. While the plan itself will typically offer common features and benefits to plan members, the tools that members use need to reflect an individual's circumstances to present correct direction. Where a plan member lives, their family situation, and the other assets they possess significantly impact on their financial situation and vary dramatically from member to member. These unique elements impact both the members' accumulation and decumulation decisions and the tools and information at a member's disposal need to include as many personalized factors as possible, so they can be as accurate as possible.

- **Frequency of assumption review:** We note that **Section 3.3** does not indicate the frequency with which assumptions should be reviewed. We recommend that the revised Guideline state that assumptions should be reviewed on a regular basis to ensure that they are reflective of current expectations.

- **4.1 Information regarding retirement products:** We applaud CAPSA's Defined Contribution Pension Plans Committee for adding material in the revised Guideline documenting the need for DC plan members to receive information regarding retirement products. We believe a discussion should be added regarding the responsibility of plan sponsors to exercise appropriate due diligence when determining the third-party provider of payout products. In this regard, we note the following mismatch between the responsibilities of the plan sponsor in the accumulation and the payout stages:

    - The administrator's responsibilities in the accumulation phase include selecting and monitoring third-party service providers and selecting and monitoring investment options; however
    - The administrator's responsibilities in the payout phase only address examining what default options should be used for variable benefit products.

    We believe that there should be proper due diligence and documentation relating to the selection and monitoring of third party service providers in the accumulation and payout stages. This will help ensure that plan sponsors select products and services that are in the best interest of plan members throughout the lifecycle of the DC plan. Much of the retirement products offered to plan members today are a residual of the selection of a third-party provider for the *accumulation* phase.

    In addition to the information included in section 4.1 that should be provided to members, we feel it is important for the plan sponsors to identify any biases or conflicts third-party providers may have and communicate those to their members, so that members are more aware and can make informed decisions.

- **5.0 Information for members during the payout phase:** We note that this section only applies to variable benefits from a plan. With group buying power, the oversight provided by plan sponsors and the ease of transition to the payout phase, we feel the value of DC or Group RRSPs can be significantly enhanced when payout options are provided by employers. We would like to see clarification of responsibilities provided to plan sponsors who decide to offer any form of payout program to their members, not just clarification for responsibilities of variable benefits. If Guideline No. 8 only discusses Variable Benefits, then sponsors may assume, incorrectly in our opinion, that they have no responsibilities in offering Group LIF or Group RIFs, as thus Variable Benefits, which carry perceived additional responsibilities will rarely be offered to plan members. We would like to see a more level playing field of plan sponsor responsibilities across all payout products, just like accumulation products (DC, RRSP, DPSP, TFSA) are treated similarly in CAPSA Guideline No.3. Should there be a difference in the level of responsibilities (Group RIF/ Group LIF, not having plan sponsor responsibilities) then we would like this explicitly addressed.

- **Information regarding withdrawals from a variable benefit plan:** Section 5.1 notes that plan administrators should consider providing income estimates based on a range of investment return assumptions (pessimistic, best estimate, and optimistic) and withdrawal patterns or an income projection tool that accommodates varying investment return assumptions and withdrawal patterns. We believe there should be more guidance around the assumptions that should be used in calculating the income estimate amounts.

- **6.0 Adverse Amendments for DC Pension Plans**: In the list of examples provided in the draft Guideline, it suggests that increasing fees paid by members is an adverse amendment. It is not common practice to include the fee level of the investments in a plan text. I don't believe it is the intention of CAPSA to create an adverse amendment when an underperforming fund is removed from an offering and replaced with a higher quality fund at a higher fee level. I would suggest that the initial 3 examples provided in the draft Guideline are sufficient to cover the event that fees allocated to members increase due to a change in a cost sharing arrangement, and coupled with Section 3.1 provides sufficient direction on fee disclosure.

Additional Comments:

- We believe that the revised Guideline should include providing information to members about how much money they need in retirement. We would also like to see some guidance around what type of information and assumptions should be included in providing this information.

- We would like to take this opportunity to suggest that there should be clarity on the pricing of both the accumulation and decumulation phase and that one should not be subsidizing the other. We have observed pricing practices where fees among the different phases (accumulation and decumulation) are set in a way that one phase is subsidizing the other. Direction should be provided to the industry to clarify that this is not acceptable.

We thank you again for the opportunity to provide our comments on the consultation. Should you have any questions on the topics discussed above, or wish to discuss any other aspect of the consultation, please feel free to contact Janice Holman (jholman@eckler.ca, 416 696-3061).

Regards,

Janice Holman
CFA, CFP

Zaheed Jiwani
CFA