September 6, 2018

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Chair
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By email: capsa-acor@fsco.gov.on.ca

Dear Ms. Mazerolle:

Re: Consultation re Guideline No. 8 – Defined Contribution Pension Plans

I am writing on behalf of Canada's life and health insurance companies in response to CAPSA's consultation regarding the captioned draft guideline. Our industry greatly appreciates the opportunity to provide feedback on regulatory expectations described in CAPSA's proposed update of this guidance.

As you know, the Canadian Life and Health Insurance Association (CLHIA) is a voluntary industry association representing manufacturers of life, health and wealth insurance products throughout Canada. CLHIA members manage approximately two-thirds of registered pension plans in Canada, with a particular focus on defined contribution plans for small and medium-size employers and their workers. In addition, Canada's life insurance companies administer over eighty-five percent of capital accumulation plans.

Because of our industry's focus on defined contribution plans, CLHIA's members and their client sponsors of such plans are keening interested in this draft guideline.

In general, we support the clarifications provided in the revised document. There are, however, some areas where some ambiguity may exist and we believe that further clarification may be of value to all stakeholders.

As well, we recognize that some service providers may require substantial lead time to enhance administrative systems to incorporate functionality, such as capturing and reporting indirect fees, that

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may not currently exist. Anecdotally, we understand from some service providers that such system enhancements may take up to 24 months from the date of adoption of a revised guideline. CLHIA would therefore recommend that CAPSA recognize such implementation timelines in the guideline itself.

Section 3.0 Information for Members During the Accumulation Phase

Bullet 3 under the second paragraph of section 3.0 indicates that guidance should be provided to members relating to "a description of fees payable by a member (directly or indirectly), including those fees set out in the CAP Guidelines". The fees listed in section 4.4 of the CAP Guideline are potentially not an exhaustive list, since the preambles to that section and section 3.0 of this guideline use the terms "including" and "includes", respectively.

It would be helpful if CAPSA could incorporate, as part of section 3.0, any additional fees that it believes should be disclosed but that are not included in the list provided in section 4.4 of the CAP Guideline. For example, it might be reasonable to include taxes, frequent transaction fees, fund expenses such as commissions paid to securities brokers, external consultant or fund manager costs or any other expenses incurred on behalf of the fund, although these do not appear to be included in the list in section 4.4 of the CAP Guideline.

We would further note that how fees are assessed should be reflected in how they are reported to members. For example, fees charged as percentages or as fixed dollar amounts should be reported in the same manner, without any requirement to convert percentages to dollar amounts or vice versa. Such conversions could require significant expansion of data capture processes (such as dollar value of percentage costs assessed during the fund accounting process), and it is unclear that the cost of the underlying processing enhancements is warranted by the granularity of such enhanced reporting.

Section 3.1 Information Regarding Investment Choices

Just as plan members may modify their investment selections within the parameters of a defined contribution pension plan, so too may sponsors change the investment offerings to better align with the plan's purpose and objectives, as available investment vehicles evolve. Such changes may also include repricing of investment options to reflect market evolution. Where a particular investment option is no longer available or appropriate, the plan administrator may also have to act quickly to provide an alternative investment, although CLHIA would expect that such decisions would normally be subject to approval of the plan sponsor.[1]

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[1] We imagine circumstances, such as those surrounding investments in asset-backed commercial paper in 2007, where the sponsor's consent may not be available on short notice, and market conditions might require immediate intervention by the plan administrator to maintain liquidity or avoid exposure should an underlying investment structure be at significant risk of default.

In some circumstances, such "menu changes" may result in transfers between investment options, and "revisions" to existing fund costs may result in fees being charged (or a change in the fees being charged) to plan members, either directly or indirectly.

CLHIA believes that the intent of the second sentence in the second paragraph of section 3.1 is to recommend disclosure of such costs in either of these circumstances, in addition to disclosure in circumstances where plan members simply reallocate investments within a static investment "menu". Some expansion of this paragraph would appear to be appropriate to explicitly note that such disclosure is expected regardless of whether the change in investment options is one selected by the member or one implemented by the plan sponsor and/or administrator.

CLHIA notes that the second bullet under the third paragraph of section 3.1 indicates an expectation that administrators should provide members with "information on any changes to the investment options available" (emphasis added). This could, for instance, be interpreted as meaning that a change to a small holding in a highly diversified fund would be expected to be reported, even where the member in question does not participate in that investment option. In CLHIA's view, the materiality of such transactions must be considered in terms of when such reporting might occur, since the cost of high frequency, but generally immaterial, transactions would ultimately be reflected in reduced yield, contrary to the likely objectives of the plan and of its members.

We would further note that, in many cases, investment fund options offered in defined contribution pension plans wrap one or more underlying funds, providing low cost access to third-party investment managers offering significant scale and expertise. Unfortunately, full cost disclosure would require a “look through” to the costs incurred by such underlying investment funds, with consistent definitions of operating expenses across the universe of underlying funds. Our understanding is that such consistency does not exist at present, and that existing data flows do not support such transparency.

We believe that the proposed guideline should focus on disclosure of material costs at the level of the investment option selected by the plan member, without an expectation that full transparency of costs in externally managed underlying investment structures is possible or relevant to the plan member.

The last paragraph of section 3.1 includes an expectation that fees be reported to members in annual and termination statements. Depending on the transaction volume and range of investments selected by or available to a member, such statements can be somewhat lengthy, and inclusion of fee information may detract from the broader purpose of such statements. For this reason, some plans have adopted separate fee disclosure documents that are referenced via annual and termination statements. CLHIA believes that section 3.1 should be revised to specifically permit such "inclusion by reference" as an alternative to direct inclusion of fee information in member statements.

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

While section 3.3 sets out expectations regarding provision of estimated values, it does not specify a particular vehicle, such as a member's annual statement, for that disclosure. CLHIA supports flexibility in how this information is delivered, including means by which a member can be directed to a website to download such estimates. A key advantage of this approach is that it can include better integration of historical account information, projection and budgeting tools, and "what if" scenario modelling to assist plan members in understanding the impact of investment choices, contribution rates, timelines and multiple other variables in determining the adequacy of their retirement savings and the income they can be expected to produce.

CLHIA encourages CAPSA to specifically incorporate flexible means of provision of estimated account balances and/or benefits into the guideline.

Section 4.2 Variable Benefit Products

Section 4.2 incorporates expectations regarding disclosure specific to plans providing variable benefits. The last two bullets in those expectations reference provision of "broad information" about different forms of risk and evolving risk tolerances as individual plan members transition from the accumulation to decumulation phase and throughout the latter phase. The term "broad information" is potentially ambiguous and subjective, and some greater specificity of regulators' expectations may be warranted. For instance, it is not clear if this term is intended to be analogous to "high level", in which case the scope of the latter term may be more generally understood and use of that term may be preferable. Conversely, if "broad" is intended to mean "comprehensive", this may be an unreasonable expectation, particularly if the means of provision of information is via annual statements. Pointing members to online resources and tools, including independent resources that discuss financial planning risks, may be more practical and efficient, and may better serve members' educational and decision making needs.

Section 5.1 Information Regarding Withdrawals from a Variable Benefit Plan

Given the very limited demand to date for variable benefit provisions within defined contribution pension plans, CLHIA members and their clients generally view the extensive systems costs of incorporating automatic variable benefit income estimates within member statements or other "push" forms of communication to be cost-prohibitive. Allocating those costs to plans providing such benefits would be unduly onerous on those plan members, so such costs would likely be born by members within all plans, the vast majority of whom do not, and are unlikely to be offered such benefits, at least in the near to medium term.

However, CLHIA members are prepared to make generic information about variable benefits available through plan websites, and possibly other delivery channels, as sponsor and plan member demand warrants. While income estimation tools may exit and may be enhanced in the future, it is likely that these tools will require member input of data, rather than automatically populating data from plan administration systems, for the foreseeable future.

There is a further complication to such modeling tools in terms of assessing what might constitute reasonable and appropriate limits on investment return assumptions and other inputs in the context of evolving capital market conditions and the range of investment options available. In addition, members' personal choice of timing and amount of withdrawals make "push" applications impractical.

Consequently, CLHIA is of the view that member-initiated and directed use of income projection tools is more practical and better targets specific member needs than would administrator-driven income estimates. Our reading is that section 5.1 contemplates both push and member-initiated models, and this is reasonable. If this is not CAPSA's intent, then section 5.1 should be clarified to expressly permit member-initiated and directed tools.

Again, thank you for the opportunity to provide comments regarding the proposed guidance. CLHIA would be pleased to expand on these concerns as necessary, and looks forward to continued dialogue with CAPSA and its members. Please feel free to contact me by telephone at 416-359-2021 or by email at rsanderson@clhia.ca should you or your colleagues wish to discuss any of the issues identified in our comments, or those from other stakeholders.

Yours sincerely,

(Original signed by)

Ronald Sanderson
Director, Policyholder Taxation and Pensions

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