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September 06, 2018

CAPSA Secretariat
16th Floor, 5160 Yonge St.
Toronto ON
M2N 6L9

Via email: capsa-acor@fsco.gov.on.ca

Subject: **CAPSA Guideline no. 8 consultation**
Submission of comments

Dear Madam or Sir:

As a fully engaged member of the Canadian retirement consultant community, BFL CANADA Consulting Services Inc. is committed to play an active role in evolving and promoting a more effective and safe pension and group retirement environment for Canadians and plan sponsors. We are honoured by the opportunity to hereby provide our comments regarding the proposed CAPSA Guideline no. 8 for Defined Contribution pension plans.

Guideline section	Topic	Comments
2.1	Investment option selection for availability to members	• Realistically expected future relative performance should be considered (based on quantitative and qualitative information available, including portfolio design and team stability) rather than historical returns, which can be a poor predictor of future returns. • Similarly, fees should not be examined in isolation, but rather along with expected performance, so as to consider the potential for future net (of fees) performance. • Considering the well-documented investor behaviour of DC plan members (particularly regarding lineups comprised of a large number of options), the addition of any option to those made available should be based on the potential benefits brought to members from this addition (for instance, added diversification). Best practice should not condone the addition of multiple similar fund options for the sake of the plan sponsors wanting to avoid the risk of not having picked the "right fund" for an asset class.

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2.2	Timing of contribution remittance from Employer	• The proposed guideline simply indicates that the current pension standards (generally, 30 days after the end of the month where contributions were taken from a member's pay) should be respected. • Although a vast majority of employers rapidly remit contributions (within a few days), some still remit monthly, which leads to member dissatisfaction and a perception that getting savings invested quickly is not important. • We feel that the current regulatory standards have unfortunately not been revised to take into account the reality of market-based investments of DC plan members and should be cut down drastically. • We believe that best practice should suggest that contributions to be invested much faster than pension standards and limited to no more than five (5) business days following payroll deduction and recommend the Guideline to be amended likewise.
2.3	Documentation of plan amendments	• We are not entirely clear what the goal of this section is and whether the situation is currently problematic; based on what is proposed we offer the comments below. • In the case where the Employer is separate from the Plan Sponsor, we believe that how and why plan design decisions are made should be documented at the Employer level, not the Plan Sponsor level – particularly when affecting future benefits - as these are business decisions. The Plan Sponsor should then just be informed of the decisions themselves in an official fashion, representing due documentation. • We nevertheless recognize that member communication for any amendment – particularly when adverse – should be prepared, generally by the Employer.
2.4	Responsibilities of Third-Party Service Provider	• In our experience, DC service providers (generally referred to as record keepers or vendors) have been doing a very good job at helping Plan Sponsors meet their duties; this has actually become a core part of their offering and is a key element of their marketing strategy and value proposition. • In this context, we recommend that the Guideline require them to annually report on their compliance to the Guidelines and Regulatory requirements regarding the plan responsibilities delegated to them by the plan administrator. • We further recommend that this reporting include a section regarding potential conflicts of interest or potential appearance thereof, particularly as some of the advice offered by service providers could be seen as tainted by potential opportunities for cross-selling DC-related products or services.

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Guideline section	Topic	Comments
2.6	Responsibilities of the Members	• We believe plan members should not only consider getting qualified investment advice, but also financial and/or retirement planning advice, particularly since the industry – in Canada and around the globe - by and large has understood it is practically impossible to have members make good, active investment decisions, and now offering proven ready-made solutions such as target date funds, used by a vast majority of members. • The above recommendation applies both to accumulation and decumulation phases (the latter when members are participating in a variable benefit product). • We would further modify the existing (cf. CAP Guidelines) member responsibility of making use of the information and tools available to strengthen it so that members also have a duty to understand how their DC plan works and, in particular where applicable, what they have to contribute to obtain the maximum allowable employer contribution. • Similarly, the Plan Sponsor should have the responsibility to communicate clearly how members can maximize Employer contributions when relevant.
3.1	Information on fees	• We welcome the new requirement for service providers to disclose to members the fees applicable to any “orphan plan” solution offered upon termination, particularly as this is frequently presented as the preferred or “default” option for a terminating member. • We however feel that fees communicated in this context should be plan-specific and not simply be a general statement saying that fees may be higher than their previous group plan’s. • A clear comparison between the fees paid in the previous group plan and the ones in the orphan plan should be required for sake of complete transparency and to allow the member to understand the magnitude of the possible fee increase. • Additional information allowing to compare to typical retail fees could also be included so as to highlight the relative benefits of the orphan plan option over retail investments.

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3.3	Projection tools	• We feel that the level of fees used as an assumption for retirement income projections should not only be "appropriate for the characteristics of the plan", but be the ones currently applicable to the plan, as this information is available to the service provider providing the projection tool. • Just as for retirement income estimates covered in Guideline no.8 section 5.1, projected retirement income should show a range of potential future income levels, or more than one, based on various scenarios (pessimistic, best estimate, optimistic). This would more clearly indicate to members that the projection does not guarantee any retirement income level, a fact still frequently misunderstood by DC plan members. • We feel that projected income balances may be misleading for members, providing them with a false sense of financial success, when reality is generally very different when converted into income expressed in today's dollars. In order to help members realize the impact of inflation over the long term, we then feel projections should show future estimated retirement income in today's dollars.
4.1	Information regarding retirement products	• Our comments made above regarding section 3.1 "Information on fees" would also apply to the communication on fees in this section. • Similarly as for section 2.6 "Responsibilities of members" above, we feel plan members should not only consider obtaining qualified investment advice, but also financial and/or retirement planning advice. • An indication to the effect that not all retirement income needs to come from a single product – and that using more than one retirement income product might actually be best - would be in order so that members consider multiple options.
6.0	Communicating on adverse amendments	• We are generally in agreement with this section, but wish to highlight that an increase in employee contributions – notwithstanding regulatory definitions - should not necessarily be considered adverse as saving more is susceptible to lead to more appropriate retirement income levels.

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Guideline section	Topic	Comments
Not covered in proposed Guideline	Unilateral life annuity purchase by Plan Sponsor	• It has come to our attention that certain Plan Sponsors have looked into, in jurisdictions where this is possible, to reduce the number of inactive members in the DC pension plan by unilaterally purchasing life annuities for them as a final DC benefit payment. In one case, this was considered even for members having actively selected to leave their DC savings in the plan and having over the Small Benefit amount. Note that, to our knowledge, service providers have been very reluctant to implement this and have not heard of a situation where this was actually done. • We believe this would be a misuse of regulations put in place for DB members that would be detrimental to DC members, irreversibly changing the nature of the "pension promise" - namely a lump sum benefit amount at retirement providing flexibility in retirement income format. • We would much prefer that pension regulations be changed where appropriate. • We recommend the Guideline be amended to specifically address this issue, possibly indicating that best practice is to keep inactive members in the plan until retirement or voluntary transfer to another institution done by the member.

We thank you for your consideration and remain available to discuss any of our comments.

Sincerely,

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