ACPM | ACARR
The Association of Canadian Pension Management
L'Association canadienne des administrateurs de régimes de retraite

October 1, 2012

Mr. Denys Jean
Président-directeur général
Régie des rentes du Québec
Place de la Cité
2600, boulevard Laurier, 5e étage
Québec (Québec) G1V 4T3

Subject: May 23, 2012 *Newsletter Express* (*La Lettre express*)

Dear Mr. Jean,

This letter is further to the June 28 phone call about the May 23 *Newsletter Express* regarding margins that the pension plan administrator must use. We had conveyed to you our unease with the wording used.

As mentioned, the Quebec Council of the Association of Canadian Pension Management (ACPM) fears that the statements made in the May 23 *Newsletter Express* will create confusion as to the role of the plan administrator and plan sponsor (or the employer's role as plan sponsor) in establishing the pension plan funding policy.

Since 1990, pension committees have been administering pension plans in the interest of members in compliance with legislation. The pension committees have the actuarial valuation prepared, receive it and ensure that the valuation is submitted to the Régie and that the contributions resulting from this valuation are made by the employer. A modus operandi was established regarding the option of actuarial assumptions, including the margins, which are specific to each pension plan.

In this *Newsletter Express*, it states that, "Since 31 December 2010—further to changes to the *Practice–Specific Standards for Pension Plans* of the Canadian Institute of Actuaries (CIA)—it has been up to pension plan administrators to set the margins for adverse deviations that the actuary is to use in the valuation of the plan on a funding basis." Then further on it states that "The Régie des rentes du Québec therefore expects plan administrators to ask their actuary to include a margin for adverse deviations in the interest assumption on a funding basis."

By so clearly stating the role of the committee, the RRQ is directly interfering with the way of doing things since 1990. It is possible that this modus operandi made the responsibility of being consistent with the actuary's margins fall on the employer, and this way of doing things does not conflict, on the contrary, with the Canadian Association of Pension Supervisory Authorities (CAPSA) Guideline No.7.

The following is stated in the Canadian Association of Pension Supervisory Authorities (CAPSA) Guideline No.7, entitled *Pension Plan Funding Policy Guideline*, dated November 15, 2011, where there is a clear distinction made for the role of the plan sponsor (employer) and plan administrator. In this guideline, under "Role of the Plan Administrator" it states the following:

> The plan administrator has certain responsibilities once the funding policy is adopted by the plan sponsor, such as ensuring that the investment policy is consistent with the funding policy and the required contributions are made.

Under "Role of the Plan Sponsor, " it states the following:

> While not a requirement under any current pension legislation, it is a good practice and good governance to develop and adopt a funding policy. In the course of activities related to the establishment of a funding policy, the plan sponsor is not held to a fiduciary standard of care.

Lastly, under "Elements of a Funding Policy," Point 8 (Actuarial Methods, Assumptions and Reporting), it states the following:

> The plan sponsor can provide useful guidance to the plan actuary in selecting actuarial methods and assumptions that are appropriate for the plan sponsor's risk management approach. This guidance can include the going concern actuarial cost method, *desired margins or provision for adverse deviations* and acceptable asset valuation methods and ranges. The plan administrator would provide information on data, investments, historical experience, etc. to assist the actuary in developing these assumptions. This combined input would normally be reflected in the actuary's selection of methods and assumptions – *in particular, the margins for adverse deviations* – provided they do not lead to assumptions that deviate from accepted actuarial practice. [Our italics]

Considering the foregoing, we believe that the new CIA practice standards and CAPSA Guideline No. 7 are consistent with the ACPM's position, i.e., the plan sponsor is responsible for funding the plan, including the establishment of the margin for adverse deviations, which has a direct impact on the plan funding.

With respect to deciding between the role of an employer acting as both plan sponsor and plan administrator (either indirectly by delegation of the pension committee in Quebec or directly in other jurisdictions), the ACPM's position also seems to be consistent with CAPSA Guideline No. 7, i.e., the employer is entitled to act in its own interest, even if this should be deemed incompatible with its role as plan administrator, though it may be subject to an implicit duty of good faith, but not a fiduciary duty.

As mentioned during our meetings, we repeat that we are offering you assistance with communications related to issues of concern for pension plan administrators.

Furthermore, we are ready to discuss the clarification of the roles and responsibilities with you as we are fully aware that this matter should be a part of the work done by the Committee of experts on the future of Quebec supplementary pension plans chaired by Alban d'Amour.

Sincerely,

Jacques Fontaine

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Chair, Québec Regional Council, ACPM

c.c. Christopher Brown, President, ACPM
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