

Canadian  
Association of  
Pension  
Supervisory  
Authorities

**CAPSA**

## **GUIDELINE No.4**

# **PENSION PLAN GOVERNANCE GUIDELINES AND SELF-ASSESSMENT QUESTIONNAIRE**

Association  
Canadienne des  
Organismes de contrôle des  
Régimes de retraite

**ACOR**

**OCTOBER 25, 2004**

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## CONTEXT FOR THE GUIDELINES

### Pension plan governance

Pension plan *governance*\* is about delivering on the pension promise consistent with the pension plan documents and pension legislation. Pension legislation defines the pension *plan administrator* as the body ultimately responsible for the governance of the pension plan. The Canadian Association of Pension Supervisory Authorities (CAPSA) has designed these guidelines to help plan administrators meet their governance responsibilities.

Pension plan governance refers to the structure and processes for overseeing, managing and administering a pension plan to ensure the fiduciary and other obligations of the plan are met. CAPSA believes that good pension plan governance is essential if *plan members* are to both receive the benefits and values they are entitled to, and to understand their rights and responsibilities under the pension plan.

### Pension plan administrator

Pension legislation specifies who may be a plan administrator and identifies the plan administrator's responsibilities. The plan administrator may be any of the following:

- the employer who established the plan,
- a pension committee,
- a board of trustees,
- an insurance company,
- a bargaining agent, or
- another body established by law.

\* Please note that defined terms are italicized when first used. Definitions are in the Glossary of Terms, contained at the end of the guidelines.

The party appointed as the administrator for a plan is usually stated in the plan documents.

The plan administrator may use *delegates* to help carry out governance responsibilities. Delegates may include employees of the plan administrator and external *service providers*.

### Pension governance system

An effective pension governance system:

- establishes a framework for defining the duties, associated responsibilities and accountabilities for all participants in the governance process,
- covers all facets of pension plan management, including communication, funding, investments and benefit administration, and
- provides careful oversight while enhancing protection for plan members and *beneficiaries*.

Good pension plan governance:

- is essential for meeting fiduciary and other obligations,
- minimizes risks and maximizes efficiency,
- promotes accurate, timely and cost-effective delivery of pension benefits,
- promotes consistent administration of the plan in the best interests of plan members and beneficiaries,
- requires control mechanisms that encourage good decision-making, proper and efficient practices, clear accountability, and regular review and evaluation, and
- contributes to positive pension plan performance and demonstrates due diligence on the part of the plan administrator.

### Governance guidelines

The CAPSA Pension Plan Governance Guidelines provide a broad, flexible outline of key pension plan governance principles. Different types and sizes of plans, however, may require different governance practices. Although pension plan administrators need to adapt their governance practices to specific circumstances and resources, we strongly recommend that all plan administrators adopt a governance structure and processes consistent with the principles that follow.

The Guidelines recommend principles for effective pension plan governance. They discuss the appropriate roles and responsibilities of the *plan sponsor* only when the plan sponsor is acting as plan administrator. They do not discuss the roles and responsibilities of the plan sponsor under general corporate governance principles. Many individuals who have pension plan governance responsibilities also have responsibilities to the plan sponsor. Consequently, they must clearly understand the different roles and responsibilities for each. Further, when taking actions that affect the pension plan, they must carefully document the actions for both sets of responsibilities.

The Guidelines build on important work by labour organizations, industry associations such as the Pension Investment Association of Canada (PIAC), the Association of Canadian Pension Management (ACPM) and pension regulators such as the Office of the Superintendent of Financial Institutions (OSFI).

CAPSA encourages all pension plan administrators in Canada to assess whether their current pension plan governance structures are effective and to strive for the best practices set out in the Guidelines. Note, however, that the Guidelines are not intended to create additional rights and obligations for any party to a pension plan. Though voluntary, they are meant to help

plan administrators achieve and maintain good pension plan governance.

### Guidelines for capital accumulation plans

The CAPSA Pension Plan Governance Guidelines provide overall guidance to assist plan administrators of all types and sizes of pension plans in achieving and maintaining good governance.

Plan Administrators whose pension plans have defined contribution components where members are permitted to make investment decisions among two or more options should also be aware of the Guidelines for Capital Accumulation Plans (“CAP Guidelines”). The CAP Guidelines, which were developed by the Joint Forum of Financial Market Regulators, were adopted by CAPSA in May 2004. At the time of their adoption, CAPSA announced its expectation that pension plans with CAP components will be operated in accordance with the CAP Guidelines by December 31, 2005.

The CAP Guidelines provide an outline of the roles and responsibilities of sponsors, service providers and members in the operation of these plans and provide guidance on the information and assistance that should be provided to plan members to assist them in making investment decisions.

Plan administrators of pension plans with CAP components should operate their plans in accordance with the CAP Guidelines supplemented by those aspects of the CAPSA Pension Plan Governance Guidelines that are not covered in the CAP Guidelines.

CAPSA Guideline Number 3, the Guidelines for Capital Accumulation Plans are available on the CAPSA website ([www.capsa-acor.org](http://www.capsa-acor.org)) under “Policies and Guidelines”.

# **CAPSA Pension Plan Governance Principles**

## **Principle 1: Fiduciary responsibility**

The plan administrator has fiduciary and other responsibilities to plan members and beneficiaries. The plan administrator may also have fiduciary and other responsibilities to other stakeholders.

## **Principle 2: Governance objectives**

The plan administrator should establish governance objectives for the oversight, management, and administration of the plan.

## **Principle 3: Roles and responsibilities**

The plan administrator should clearly describe and document the roles, responsibilities, and accountability of all participants in the pension plan governance process.

## **Principle 4: Performance measures**

The plan administrator should provide for the establishment of performance measures and for monitoring the performance of participants who have decision-making authority in the governance process.

## **Principle 5: Knowledge and skills**

The plan administrator, directly or with delegates, has a duty to apply the knowledge and skills needed to meet governance responsibilities.

## **Principle 6: Access to information**

The plan administrator and, as necessary, any delegates should have access to relevant, timely and accurate information.

## **Principle 7: Risk management**

The plan administrator should provide for the establishment of an internal control framework, commensurate with the plan's circumstance, which addresses the pension plan's risks.

## **Principle 8: Oversight and compliance**

The plan administrator should provide for the establishment of appropriate mechanisms to oversee and ensure compliance with the legislative requirements and pension plan documents and administrative policies.

## **Principle 9: Transparency and accountability**

The plan administrator should provide for the communication of the governance process to plan members, beneficiaries and other stakeholders to facilitate transparency and accountability.

## **Principle 10: Code of conduct and conflict of interest**

The plan administrator should provide for the establishment of a code of conduct and a policy to address conflicts of interest.

## **Principle 11: Governance review**

The plan administrator should conduct a regular review of its plan governance.

# CAPSA PENSION PLAN GOVERNANCE GUIDELINES

## Principle 1: Fiduciary responsibility

**The plan administrator has fiduciary and other responsibilities to plan members and beneficiaries. The plan administrator may also have fiduciary and other responsibilities to other stakeholders.**

### (a) Fiduciary obligations of the plan administrator

A fiduciary relationship exists when a plan administrator and/or any delegates can exercise discretionary power to affect members' or beneficiaries' interests. The greater the discretionary powers of the fiduciaries, the greater their fiduciary duties. The plan administrator and delegates must act in good faith and in the best interests of plan members, beneficiaries and other *stakeholders* of the pension plan when carrying out their fiduciary responsibilities.

In its fiduciary role, the plan administrator's responsibilities include:

- treating members and beneficiaries impartially,
- acting with the care, skill and diligence of a prudent person,
- interpreting the plan terms fairly, impartially and in good faith,
- preventing personal interests from conflicting with those of the plan, and
- within the scope of its authority, ensuring that members and beneficiaries receive promised benefits.

The plan administrator also has other responsibilities to members and beneficiaries, and may have other responsibilities to other stakeholders.

The pension governance process should help the plan administrator carry out its fiduciary and other responsibilities. If needed, the plan administrator should engage appropriate professional advisors.

To address conflicts of interest, the plan administrator should have a resolution process in place (see Principle 10).

### (b) Employers or bargaining agents acting as plan administrators

When employers, bargaining agents, or their nominees act as plan administrators, they must understand the difference between their plan administrator and other roles, and act accordingly. Employers or bargaining agents should follow the principles in these Guidelines when acting as plan administrator.

## Principle 2: Governance objectives

**The plan administrator should establish governance objectives for the oversight, management, and administration of the plan.**

The plan administrator determines plan governance objectives, which provide the framework and standards for the oversight, management and administration of the pension plan and its *pension fund*. The objectives, which should be clearly documented, should build on any of the plan sponsor's objectives for the pension plan, as well as on the plan terms and regulatory requirements. Pension plan governance objectives help develop effective governance practices leading to the efficient and successful operation of the pension plan.

**Principle 3: Roles and responsibilities**

**The plan administrator should clearly describe and document the roles, responsibilities, and accountability of all participants in the pension plan governance process.**

The plan administrator:

- is expected to oversee and assume responsibility for the pension plan, but is not expected to manage the plan on a day-to-day basis,
- may delegate operational management tasks, but is ultimately responsible and accountable for managing the plan and for selecting and monitoring the actions of delegates and committees, and
- should ensure that the pension governance structure, roles and responsibilities, accountability and reporting relationships (i.e. chain of delegation) are clearly documented and communicated to all participants in the pension plan governance process.

When the same person performs both pension plan governance and corporate functions, there must be a clear recognition and understanding of the different roles and responsibilities of each function. Good pension plan governance requires clear documenting of each action and the role under which an action was taken.

**Principle 4: Performance measures**

**The plan administrator should provide for the establishment of performance measures and for monitoring the performance of participants who have decision-making authority in the governance process.**

The plan administrator is responsible for regularly monitoring the performance of all key decision-makers and evaluating them against established performance measures. The plan administrator should report the results to appropriate stakeholders, and regularly review performance measures themselves.

Since performance evaluations need to be based on impartial assessments, the plan administrator may require independent professional advice. The plan administrator should direct recommendations for change to the group that the decision-makers are accountable to. The plan administrator is responsible for establishing procedures with follow-up actions to correct inadequate performance.

**Principle 5: Knowledge and skills**

**The plan administrator, directly or with delegates, has a duty to apply the knowledge and skills needed to meet governance responsibilities.**

The plan administrator is ultimately responsible for the governance of the pension plan. The plan administrator may get help from others to meet the obligations of this role. The administrator, delegates and committees in the governance structure should together possess and apply the knowledge and skills to fulfill governance responsibilities. The plan administrator should be provided with appropriate training and ongoing education, as required.

**Principle 6: Access to information**

**The plan administrator and, as necessary, any delegates should have access to relevant, timely and accurate information.**

Processes should exist so that the plan administrator and any delegates, as required, receive appropriate, current, accurate, and complete information to enable them to perform their responsibilities effectively.

**Principle 7: Risk management**

**The plan administrator should provide for the establishment of an internal control framework, commensurate with the plan’s circumstances, that addresses the pension plan’s risks.**

**(a) Internal control framework**

The internal control framework should ensure that risks are addressed and appropriate controls are in place. The plan administrator should understand and approve the framework and the written internal control policies. While the framework may vary depending on the plan type, it should include policies on documentation, record keeping, costing, funding, fund investment, expense control, benefits administration, outsourcing, compliance, and communication.

**(b) Fees**

The plan administrator should monitor and assess the reasonableness and competitiveness of any fees charged to the plan or paid by members.

**(c) Delinquency control**

The plan administrator should establish a delinquency control program with procedures for collecting unpaid contributions and data, and solutions for non-compliance.

**Principle 8: Oversight and compliance**

**The plan administrator should provide for the establishment of appropriate mechanisms to oversee and ensure compliance with the legislative requirements and pension plan documents and administrative policies.**

Every pension plan needs documented processes and standards to enable compliance with legislative requirements. This also ensures all administrative functions, including calculating, paying and receiving contributions and pension benefits or values, fall within the plan terms, plan administrative policies, and legislative requirements.

**Principle 9: Transparency and accountability**

**The plan administrator should provide for the communication of the governance process to plan members, beneficiaries and other stakeholders to facilitate transparency and accountability.**

**(a) Communication policy: plan members and beneficiaries**

A governance-focussed communication policy should be established for the pension plan. The policy should provide for the disclosure of governance-related information to members and beneficiaries. At a minimum, this should include the information required by statute. Communication should be appropriate, timely, accurate, complete, consistent, cost-effective, and accessible to promote members’ and beneficiaries’ confidence in the governance process.

The plan administrator should consider both fiduciary and other responsibilities when deciding



what to disclose, the manner and form of disclosure, and whom to disclose the information. In this context, the plan administrator needs to consider appropriate information disclosure to members about the benefits, risks, and responsibilities of membership in the plan.

The plan administrator should give sufficient information to members for them to make informed decisions about their pension plan options.

**(b) Plan member and beneficiary concerns**  
Pension plan members and beneficiaries have a right to voice their concerns and have them addressed quickly.

The administrator should arrange for capable parties to address member inquiries and complaints, and create effective conflict resolution procedures to handle disagreements.

The names and responsibilities of key contacts should be given to plan members and beneficiaries.

### **Principle 10: Code of conduct and conflict of interest**

**The plan administrator should provide for the establishment of a code of conduct and a policy to address conflicts of interest.**

The plan administrator should establish a code of conduct for both the plan administrator and its delegates. The code of conduct should set out required behaviour, establish a control procedure for conflicts of interest and provide for due process and a dispute resolution mechanism.

The plan administrator should always behave in a manner that reflects its fiduciary and other obligations. To ensure the code of conduct is effective, and that it also applies to delegates, the plan administrator should set up a review process.

The conflict of interest policy should set out an appropriate procedure to disclose and address conflicts of interest. The policy should address both actual conflicts and the appearance of conflicts.

### **Principle 11: Governance review**

**The plan administrator should conduct a regular review of its plan governance.**

The plan administrator should periodically review governance procedures and practices to assess their effectiveness compared to the pension plan's stated governance objectives. The administrator may wish to report the results of the self-assessment exercise, including any resulting changes in policies, procedures and practices to pension plan members, beneficiaries, delegates and other stakeholders.

Every pension plan should have a method of regularly assessing the plan administrator's performance and the governance structure of the pension plan. Ongoing review of the governance procedures themselves will show the effectiveness of a pension plan's governance structure and operations. It will also demonstrate whether the plan administrator is meeting the governance objectives and fulfilling the required fiduciary and other responsibilities. After each review, the plan administrator should modify the governance structure and the policies and practices, as required, to enhance effectiveness.

Plan administrators may wish to seek independent professional advice to ensure impartiality for their self-assessment. Self-assessment should be tailored to the circumstances of the pension plan.

## **GLOSSARY OF TERMS**

<i>beneficiary</i>	an individual entitled to a death benefit under the terms of a pension plan.
<i>delegate*</i>	any party who carries out aspects of the administration of the pension plan.
<i>governance</i>	the structure and processes for overseeing, managing and administering a pension to ensure the fiduciary and other obligations of the plan are met.
<i>pension fund</i>	the assets of the pension plan, which are held separate and apart from other assets of the sponsor.
<i>plan administrator</i>	the individual, group, body or entity that is ultimately responsible for the oversight, management and administration of a pension plan.
<i>plan member(s) or member</i>	both current and former employees entitled to benefits under the plan.
<i>plan sponsor</i>	the individual, entity, or entities that establish and/or continue to sponsor a pension plan.
<i>service provider</i>	a provider of services or advice required by the plan administrator in the operation of the pension plan.
<i>stakeholder</i>	a party who has an interest in decisions and actions about the plan. It includes plan members and beneficiaries, and may include others who may be entitled to plan benefits in circumstances such as marriage breakdown. Depending on the circumstances of the plan, it may also include the plan administrator, employers, collective bargaining agents, employee associations, and others.

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\* In Québec, there is also the notion of "delegatee", which is distinct from that of the "delegate". The delegatee has, with respect to delegated functions, the same responsibilities as the administrator.



## **APPENDIX: CAPSA PENSION PLAN GOVERNANCE SELF-ASSESSMENT QUESTIONNAIRE**

(In this questionnaire, “you” refers to the plan administrator.)

CAPSA has prepared the Pension Plan Governance Self-Assessment Questionnaire to help you assess how successfully your plan follows effective governance principles.

You can use the questionnaire to determine which principles you have already instituted and which steps to take to improve the governance of your pension plan. To make the best use of the questionnaire, when you answer a question **Yes**, document the sources of the answer. When you answer **No**, note the areas that need more work and what you need to do to change the response to **Yes**.

Plan administrators may adapt the questionnaire to suit the needs of their pension plans.

Please complete the questionnaire honestly and objectively. You may wish to appoint an individual to coordinate the completion of the questionnaire. This individual may wish to get help from those who have the best knowledge of particular issues. The primary responsibility for completing the questionnaire remains with you. You should approve the completed questionnaire. We recommend you complete the questionnaire annually.

The completed questionnaire **does not** have to be filed with the regulator of your pension plan, but should be kept on file for your future reference.

# QUESTIONNAIRE

1. Fiduciary responsibility	Comments/Reference/Actions
a) Have you identified your fiduciary and other responsibilities to plan members and beneficiaries?  Yes <input type="checkbox"/> No <input type="checkbox"/>	
b) Have you identified any responsibilities to other stakeholders and noted any that are fiduciary?  Yes <input type="checkbox"/> No <input type="checkbox"/>	
2. Governance objectives	Comments/Reference/Actions
a) Have you established governance objectives for the oversight, management and administration of the plan?  Yes <input type="checkbox"/> No <input type="checkbox"/>	
3. Roles and responsibilities	Comments/Reference/Actions
a) Have you identified your roles and responsibilities, including any necessary delegation, for the effective governance of the pension plan?  Yes <input type="checkbox"/> No <input type="checkbox"/>	
b) Have you clearly documented expectations for yourself and each of your delegates?  Yes <input type="checkbox"/> No <input type="checkbox"/>	

**APPENDIX – SELF-ASSESSMENT QUESTIONNAIRE**

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4. Performance measures	Comments/Reference/Actions
a) Have you established clear measures for assessing the performance of all participants in the governance process who have decision-making authority?  Yes <input type="checkbox"/> No <input type="checkbox"/>	
b) Do you have a regular performance monitoring, review and remedial process for all participants in the governance process who have decision-making authority?  Yes <input type="checkbox"/> No <input type="checkbox"/>	

5. Knowledge and skills	Comments/Reference/Actions
a) Have you established an ongoing process to identify the knowledge and skills needed for the effective governance of the pension plan?  Yes <input type="checkbox"/> No <input type="checkbox"/>	
b) Do you have a process to fill gaps in knowledge and skills?  Yes <input type="checkbox"/> No <input type="checkbox"/>	

6. Access to information	Comments/Reference/Actions
a) Have you and, as required, your delegates defined the information necessary to discharge your responsibilities?  Yes <input type="checkbox"/> No <input type="checkbox"/>	
b) Do you have a process in place for obtaining this information accurately, quickly, clearly and in a suitable format?  Yes <input type="checkbox"/> No <input type="checkbox"/>	

## APPENDIX – SELF-ASSESSMENT QUESTIONNAIRE

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7. Risk management	Comments/Reference/Actions
a) Have you identified the pension plan’s risks?  Yes <input type="checkbox"/> No <input type="checkbox"/>	
b) Do you have a process to manage these risks?  Yes <input type="checkbox"/> No <input type="checkbox"/>	
8. Oversight and compliance	Comments/Reference/Actions
a) Have you identified the legislative requirements, documents and policies that apply to the pension plan?  Yes <input type="checkbox"/> No <input type="checkbox"/>	
b) Do you have a mechanism to ensure you comply with legislative requirements and pension plan documents and administrative policies?  Yes <input type="checkbox"/> No <input type="checkbox"/>	
9. Transparency and accountability	Comments/Reference/Actions
a) Have you provided an explanation of the pension plan’s governance process to plan members, beneficiaries and other stakeholders?  Yes <input type="checkbox"/> No <input type="checkbox"/>	
b) Have you provided an explanation to plan members and beneficiaries of the process that will be used to address their questions and complaints?  Yes <input type="checkbox"/> No <input type="checkbox"/>	

**APPENDIX – SELF-ASSESSMENT QUESTIONNAIRE**

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10. Code of conduct and conflict of interest	Comments/Reference/Actions
a) Do you have a code of conduct that sets out the required behaviour for you and your delegates?  Yes <input type="checkbox"/> No <input type="checkbox"/>	
b) Do you have a conflict of interest policy to deal with your actual or perceived conflicts of interest and those of your delegates?  Yes <input type="checkbox"/> No <input type="checkbox"/>	

11. Governance review	Comments/Reference/Actions
a) Have you established a process for regularly reviewing your pension plan’s governance?  Yes <input type="checkbox"/> No <input type="checkbox"/>	
b) Do you have an effective process to resolve any inconsistencies or inadequacies in the plan’s governance?  Yes <input type="checkbox"/> No <input type="checkbox"/>	

**Completed by:**

**Approved by:**  
*(if different)*

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Name

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Name

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Title

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