



## **Guideline No. 4: Pension Plan Governance Guideline**

## Context for the Guidelines

The Canadian Association of Pension Supervisory Authorities (CAPSA) has designed these guidelines and associated reference tools to help plan administrators meet their **governance** responsibilities.

Published originally in 2004, these guidelines have been used widely by **pension plans** in Canada. The current version includes updated and clarified principles and guidance on implementation of the principles.

### *Pension Plan Governance*

Pension plan governance refers to the structure and processes in place for the effective **administration** of the pension plan to ensure the fiduciary and other responsibilities of the plan administrator are met. CAPSA believes that good pension plan governance is essential if **plan members** and **beneficiaries** are to receive the benefits they are entitled to, and to understand their rights and responsibilities under the pension plan.

The objective of pension plan governance is to enable the plan administrator to deliver on the pension promise consistent with the pension plan documents and pension legislation. Pension legislation defines the pension **plan administrator**\* as the body responsible for the governance of 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 or permitted by law.

The party appointed as the plan administrator 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 **third party service providers**.

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

## *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 responsibilities,
- minimizes risks and maximizes efficiency,
- promotes accurate, timely and cost-effective delivery of pension benefits,
- promotes 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,
- contributes to positive pension plan performance, and
- helps to demonstrate due diligence on the part of the plan administrator.

## *Governance Guidelines*

This CAPSA Guideline on Pension Plan Governance provides 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 tools and strategies used to reflect these principles may vary depending on the characteristics of each pension plan.

The Guidelines recommend principles for effective pension plan governance. They outline the appropriate roles and responsibilities of the *plan sponsor* only when the plan sponsor is acting as plan administrator. They do not cover 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, those with governance responsibilities 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. In particular, whenever the two roles are in a conflict of interest, the administrator must act in the best interests of plan members and beneficiaries.

CAPSA encourages all pension plan administrators in Canada to assess whether their current pension plan governance structures and processes 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 responsibilities for any party to a pension plan. Though voluntary, they are meant to help plan administrators achieve and maintain good pension plan governance.

## *CAPSA Guidelines*

This CAPSA Guideline on Pension Plan Governance provides overall guidance to assist plan administrators of all types and sizes of pension plans in achieving and maintaining good governance. Plan administrators and other governance participants may also wish to reference other CAPSA Guidelines and publications that are appropriate to the plan's circumstances.

Each of the CAPSA Guidelines and other publications can be obtained through CAPSA's website ([www.capsa-acor.org](http://www.capsa-acor.org)) under "[CAPSA Guidelines](#)".

## **CAPSA Pension Plan Governance Principles**

### *Principle 1: Fiduciary responsibility*

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

### *Principle 2: Governance framework*

The plan administrator should establish and document a governance framework for the administration of the plan.

### *Principle 3: Roles and responsibilities*

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

### *Principle 4: Performance monitoring*

The plan administrator should establish and document performance measures to monitor the performance of participants in the governance and administration of the plan.

### *Principle 5: Knowledge and skills*

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

### *Principle 6: Governance information*

The plan administrator should establish and document a process to obtain and provide to governance participants appropriate information to meet fiduciary and other responsibilities.

### ***Principle 7: Risk management***

The plan administrator should establish and document a framework and ongoing processes, appropriate to the pension plan, to identify and manage the plan's risks.

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

The plan administrator should establish and document appropriate processes to ensure compliance with the legislative requirements and pension plan documents.

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

The plan administrator should establish and document a communication process with the aim to be transparent and accountable to plan members, beneficiaries and other stakeholders.

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

The plan administrator should establish and document a code of conduct, incorporating a policy to manage conflicts of interest.

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

The plan administrator should establish and document a process for the regular review of the pension plan's governance framework and processes.

# CAPSA Pension Plan Governance Guidelines

## *Principle 1: Fiduciary responsibility*

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

A fiduciary relationship is one of trust between two or more parties where one (or more) person(s) (the fiduciary[ies]) has an obligation to act in the best interests of the other party.

### **(a) Fiduciary responsibilities**

Fiduciary obligations are owed when legislation imposes such duties or when:

- i. a plan administrator and/or any delegates can exercise discretionary power to affect the interests of members or beneficiaries;
- ii. a plan administrator and/or any delegates can unilaterally exercise that power so as to affect the interests of the members or beneficiaries; and
- iii. the members and/or beneficiaries are in a position of vulnerability at the hands of the plan administrator and/or any delegate.

The plan administrator and delegates must act honestly, in good faith and in the best interests of plan members and beneficiaries of the pension plan as part of their fiduciary responsibilities.

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

- treating members and beneficiaries impartially and considering the interests of those members currently accruing a pension, those who are in receipt of a pension and any others who may be entitled to a benefit from the plan,
- acting with the care, skill and diligence of a prudent person,
- interpreting the plan terms fairly, impartially and in good faith,
- managing conflicts of interest, and
- within the scope of such duties and its authority, ensuring that members and beneficiaries receive promised benefits.

The pension governance process should help the plan administrator carry out its fiduciary and other responsibilities. Although plan administrators may delegate certain tasks of the plan administrator to third parties, the administrator retains fiduciary responsibility.

### **(b) Other responsibilities**

The plan administrator may also have other responsibilities to other stakeholders.

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 and bargaining agents should follow the principles in these Guidelines when acting as plan administrator.

### ***Principle 2: Governance framework***

#### **The plan administrator should establish and document a governance framework for the administration of the plan.**

The governance framework should:

- i. identify the duties and functions that need to be performed for the plan administrator to meet its fiduciary and other responsibilities; and
- ii. determine and demonstrate on an on-going basis how the plan administrator will meet such fiduciary and other responsibilities.

The plan administrator may wish to consider sharing relevant documents related to the governance framework with the plan members, beneficiaries and other stakeholders beyond those legally required.

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

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

The plan administrator:

- is ultimately responsible and accountable for managing the plan;
- may delegate operational management tasks, but should provide oversight to ensure responsibilities are fulfilled;
- is responsible for selecting the delegates and monitoring the actions of delegates;
- is responsible for managing any conflicts of interest that arise; and
- should ensure that the pension governance structure, roles and responsibilities, accountabilities 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 or entity performs both pension plan administration and corporate functions, there should be a clear recognition, understanding, and documentation of the different roles and responsibilities of each function. When a decision related to the pension plan is made, it should be clearly documented, and its rationale and the role under which it is taken should be included.

#### *Principle 4: Performance monitoring*

**The plan administrator should establish and document performance measures to monitor the performance of participants in the governance and administration of the plan.**

The plan administrator is responsible for:

- establishing and documenting appropriate performance measures;
- regularly monitoring the performance of all participants in the governance process, including the plan administrator, internal staff and delegates;
- regularly reviewing the appropriateness of such performance measures; and
- establishing procedures and taking follow-up actions to correct inadequate performance.

Since performance evaluations need to be based on objective, impartial assessments, the plan administrator may require independent professional assessments.

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

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

The plan administrator is ultimately responsible for the governance and the administration of the pension plan. In order to apply the knowledge and skills needed to meet the plan administrator's responsibilities, the plan administrator should identify the relevant qualifications, resources and experience necessary to meet these responsibilities. The plan administrator should either obtain appropriate support to directly fulfill the administration role or delegate the function to external experts.

The plan administrator and delegates in the governance structure should together possess and apply the knowledge and skills to fulfill the plan administrator's responsibilities.

The plan administrator should, on appointment and on an ongoing basis, consider whether all delegates have the relevant qualifications, resources and experience to carry out their function and have access to appropriate education.

#### *Principle 6: Governance information*

**The plan administrator should establish and document a process to obtain and provide to governance participants appropriate information to meet fiduciary and other responsibilities**

Processes should exist so that the plan administrator obtains the necessary information to meet its fiduciary and other responsibilities.



The plan administrator should ensure that delegates have appropriate information related to the pension plan that is needed to carry out their responsibilities.

### ***Principle 7: Risk management***

**The plan administrator should establish and document a framework and ongoing processes, appropriate to the pension plan, to identify and manage the plan's risks.**

A plan's risk management framework should provide reasonable assurance for the achievement of the plan's objectives through:

- a) identifying the risks;
- b) assessing and prioritizing the risks;
- c) ensuring a clear understanding of the responsibilities for the management of the risks;
- d) accepting the risk or designing and implementing an appropriate risk-mitigating response;
- e) monitoring and evaluating the risks and effectiveness of the responses and risk management processes generally; and
- f) documenting the risk management processes.

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

**The plan administrator should establish and document appropriate processes to ensure compliance with the legislative requirements and pension plan documents.**

Every pension plan should have documented processes to enable compliance with legislative requirements and to ensure functions related to the administration and governance of the pension plan fall within the plan terms, plan administrative policies, and legislative requirements.

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

**The plan administrator should establish and document a communication process with the aim to be transparent and accountable to plan members, beneficiaries and other stakeholders.**

The plan administrator should establish a communication process, taking into account both fiduciary and other responsibilities, so that plan members, beneficiaries and other stakeholders have access to information about the plan as required by applicable legislation. In addition, the plan administrator should consider what, if any, other information about the plan will be made available to plan members, beneficiaries and other stakeholders.

Plan administrators should inform pension plan members and beneficiaries of the process for asking questions and raising concerns.

When communicating with plan members, the plan administrator should:

- a) communicate how important decisions about the plan are made; and,

- b) inform them of the risks, benefits, options, and responsibilities of membership in the plan.

In establishing and documenting the communication process, the plan administrator should consider the different interests of stakeholder groups, and whether communication methods might be adapted to meet those interests more effectively.

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

**The plan administrator should establish and document a code of conduct, incorporating a policy to manage conflicts of interest.**

The plan administrator should establish and periodically review a documented code of conduct applicable to the administration of the plan. The code of conduct should set out expected behaviours. It should also include or incorporate procedures to identify, monitor and address material conflicts of interest, both actual and perceived.

Plan administrators should ensure delegates have an appropriate code of conduct that incorporates a policy to manage conflicts of interest, as well as processes for appropriate disclosure of conflicts and breaches of the code of conduct.

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

**The plan administrator should establish and document a process for the regular review of the pension plan's governance framework and processes.**

The plan administrator should regularly review the pension plan's governance framework and processes and establish a timeframe for the review. The attached *Pension Plan Administrator Governance Self-Assessment Questionnaire* has been developed to assist the plan administrator in carrying out a governance review.

The governance review may result in the plan administrator setting goals and objectives for the future and modifying its policies and practices to improve overall pension plan governance. Where the review identifies governance shortfalls, the review process should also identify and implement methods to address them.

The plan administrator may wish to communicate the result of the governance review to plan members, beneficiaries and other stakeholders.

## Glossary of Terms

<i>administration</i>	the oversight, management and operations of the pension plan and its pension fund including the investment of the assets of the pension fund.
<i>beneficiaries</i>	individual, group, body or entity entitled to a benefit under the terms of a pension plan other than plan members.
<i>delegate*</i>	any party who carries out aspects of the administration of the pension plan and investment of the pension fund (including a committee or third party service provider).
<i>plan administrator</i>	the individual, group, body or entity that is responsible for the oversight, management and operations of the pension plan and pension fund.
<i>plan member(s) or member(s)</i>	all current and former employees, including retired employees, entitled to benefits under the pension plan.
<i>plan sponsor</i>	the individual or entity that is responsible for determining the design of the pension plan, setting the benefit structure for various classes of members, and establishing, amending or terminating the pension plan.
<i>third party service provider</i>	the entity (or entities) or individual(s) that is/are retained by the plan administrator to perform some or all of the delegated duties associated with the pension plan and the pension fund that the administrator is required to perform.
<i>stakeholder</i>	a party who has an interest in decisions and actions about the pension plan. It includes plan members and beneficiaries, and may include others who may be entitled to pension plan benefits in circumstances such as marriage breakdown. Depending on the circumstances of the pension plan, it may also include the plan administrator, employers, collective bargaining agents, employee and employer 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 plan administrator.