common wealth

# Skating to where the regulatory puck is going

What new Capital Accumulation Plan (CAP) guidelines may mean for group retirement plan sponsors and advisors

# About Common Wealth

Common Wealth offers an award-winning digital retirement platform that provides an easy way to plan, save, invest and build a reliable retirement income – so our members can feel confident about their financial future. We are driven by our mission to help all Canadians achieve financial security in retirement.

Common Wealth is the trusted retirement plan provider to a rapidly growing number of businesses, non-profits, associations, and unions across the country, and works in collaboration with benefits advisors, HR platforms, and other valued partners.

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# Why we wrote this guide

## The regulatory landscape governing group retirement plans is set to change.

The Capital Accumulation Plan (CAP) Guidelines (“the Guidelines”), the primary document for the regulation of group retirement plans, have not been meaningfully updated since 2004. But a recent report from two of Canada’s top financial services regulators could mark the beginning of major changes in the group retirement landscape.

The report’s recommendations are aimed at improving the Guidelines with the goal of enhancing financial outcomes for defined contribution plan members. Although these recommendations are still subject to change, **plan sponsors and group retirement advisors have an opportunity now to get ahead of the regulatory curve by considering these recommendations as the new minimum standard.**

The CAP Guidelines is the primary document for the regulation of group retirement plans. It outlines the responsibilities of an employer with a:

- Defined Contribution Pension Plan (DCPP)
- Group RRSP & Group TFSA
- Group RESP; or
- Deferred Profit Sharing Plan (DPSP)

# A signal of coming change

## New recommendations

In November 2021, the Office of the Superintendent of Financial Institutions (OSFI) and the Financial Services Regulatory Authority of Ontario (FSRAO) released the recommendations of their Technical Advisory Committee on defined contribution pension plans. The committee's mandate was to recommend ways to improve how defined contribution pension plans are regulated, with a focus on enhancing outcomes for plan members.

**The recommendations are the result of over a year of work by OSFI, FSRAO, and an 18-member expert committee comprised of actuaries, lawyers, union retirement specialists, benefits advisors, and plan providers. The recommendations focus on how to improve the Capital Accumulation Plan (CAP) Guidelines.**

While there have been many recommendations over the years about how to improve Canada's retirement system, there are reasons to take the committee's recommendations seriously.

## Consensus between financial services regulators

The recommendations emanate from two of Canada's most powerful financial services regulators. They are also the result of these two regulators working together, representing a rare consensus between two influential bodies.

## Changes recommended across the country, and to all CAP arrangements

The recommendations are pan-Canadian in nature. Initially, the committee was looking to recommend changes only to the defined contribution plans that OSFI and FSRAO regulate. But ultimately the regulators decided to turn them into recommendations for changes to the CAP Guidelines, which govern group retirement plans (including not only DC plans but also Group RRSPs, Deferred Profit Sharing Plans (DPSPs), and Group TFSAs) across the country.

The regulators made a point of emphasizing their view that the governance responsibilities of sponsors of non-DCPP CAP Plans (e.g., Group RRSPs) are substantially similar to those of DC plan sponsors. This strongly suggests that the recommendations are likely to extend beyond DC plans to Group RRSPs, DPSPs, Group TFSAs, and other plans governed by the CAP Guidelines.

## Broad community support

The recommendations come from a committee that reflects a broad cross-section of voices, including organized labour and business, large and small plans, the insurance industry and co-operatives, consultancies and brokerages. This represents a significant investment of time and energy by the regulators to build a broad consensus about the importance of the changes.

## Aligning with global trends

Perhaps most significantly, the recommendations follow a global trend. Other jurisdictions, including the US and UK, have already moved aggressively in the direction OSFI and FSRAO are recommending.

For these reasons, we believe the committee's recommendations deserve the attention of group retirement advisors and plan sponsors. To borrow a phrase from a famous Canadian, they very likely represent where the regulatory puck is going, and advisors and plan sponsors would be well advised to start skating in the direction of these trends by future-proofing their practices and plans to prepare for the coming change.

# SIX RECOMMENDATIONS

> "The Guideline should be clear that the primary purpose of the plan is to enable members to eventually receive lifetime retirement income from their savings, which is a more holistic description of purpose than simply retirement savings."

The OSFI / FSRAO committee recommendations are broken into six parts. We summarize each of them, and describe some of their implications, below.

## #1: Income is the outcome

### The goal is for members to receive lifetime retirement income from their savings

While the existing Guidelines state that plan sponsors should define the purpose of their plan, the committee recommends that this purpose should be defined in terms of outcomes for members. When the purpose is to help members save for retirement, sponsors should pay more attention to the kind of lifetime retirement income that can be produced from savings in the plan.

The new recommendations state, "The Guideline should be clear that the primary purpose of the plan is to enable members to eventually receive lifetime retirement income from their savings, which is a more holistic description of purpose than simply retirement savings."

#### What's happening in other countries

US retirement policy has already begun to focus much more on retirement income. The most recent retirement reforms passed by the US Congress, the SECURE Act, requires providers to give members a projection of the lifetime income they can expect from their savings. Similarly, regulators in the UK[1] and the rest of Europe[2] have recommended that providers include income projections in their communications with plan members.

1 https://www.gov.uk/government/consultations/simpler-annual-benefit-statements-for-workplace-pensions.
2 https://www.eiopa.europa.eu/media/news/model-iorp-ii-pension-benefit-statement_en

## Helping Canadians understand their expected retirement income

Many group retirement plans today lack a clear purpose, other than simply to help members to save for retirement. OSFI and FSRAO's recommendations push sponsors in the direction of greater specificity in terms of how much retirement income members can expect given the contribution formula. This will require support from providers and advisors in making these projections, communicating them to plan members, designing the right contribution formula, and reviewing plan performance through the lens of retirement readiness.

## The challenge for legacy providers

Legacy providers lack many of these tools. Where they have retirement income projection tools, these tools are often disconnected from the enrollment process and core member experience, and many members neglect to engage with them.

## Common Wealth's member-first approach

Common Wealth's friendly online member experience is built around helping members estimate and track their retirement income, so they can easily track their progress over time. Every member account gets:

- Retirement income targets
- Retirement income projections
- Estimates of expected government benefits
- A breakdown of income sources (employer, member, other savings and government benefits)

Common Wealth also supports benefits advisors and plan sponsors, helping them to define an appropriate contribution rate and matching formula. This is particularly important for employers who want a competitive edge in compensation and benefits that boost talent retention and recruiting efforts, while building a strong brand reputation as a great place to work.

A retirement plan should be more than just an investment account

Our retirement plans also provide member retirement readiness metrics to employers and their benefits advisors, so they can easily evaluate participation and success of their team.

## #2: More focus on member engagement

OSFI and FSRAO recommend the Guidelines focus more on member engagement and on the techniques that have proven effective in helping employees to engage with their plan, stating:

**"Engagement activities should be geared toward the outcome intended by the plan. For plans with a retirement focus, the Guideline should encourage practices that help members understand their level of savings and likely income in retirement."**

That means harnessing insights from behavioural science and well-supported methods for encouraging members to engage with their plans.

### Behavioural science inspired techniques

Behavioural science has evolved considerably since the original Guidelines were published in 2004. Techniques such as auto-enrollment and auto-escalation are now well-established around the world, and there is a growing body of research on how best to frame decisions around saving, investing, and planning.

Online and mobile access increasingly constitutes the main way members engage with their plan. With regulators more focused on member engagement, sponsors and advisors have an obligation to consider the quality of the digital experience and the behavioural insights, as part of their plan selection and oversight processes.

For these reasons, leading behavioural scientist Shlomo Benartzi has suggested that the concept of plan sponsor fiduciary duty extends to the digital domain.[3]

### Common Wealth's digital plan for the modern world

Common Wealth has designed an intuitive digital experience for members, with intelligent in-app suggestions to help members make smart saving decisions based on their life stage, income level and current savings. The plan gives members:

- Self-serve online enrollment
- Personalized auto-escalation to help save more over time
- Clear communication of the employer match
- Intuitive, self-serve online experience
- Proactive communication geared to improving financial outcomes
- "Just-in-time" educational tools to support key decisions

3 https://www.investmentnews.com/whitepapers/digital-fiduciary-retirement-plans-in-the-digital-age

# #3: Streamlining investments

## Give members more specific guidance on investment line-up design

### Better investment strategies

The OSFI / FSRAO recommendations call for more specific guidance on investment line-up design, including the use of default funds. The Guidelines, they say, should clarify that short-term investments, such as money market funds, are inappropriate default funds for retirement plans. They should also encourage plan sponsors to streamline investment line-ups, offering plan members a more curated number of choices, since evidence suggests this will lead to better outcomes.

### Target date funds

There have been two major developments in this respect since the Guidelines were released in 2004. The first is the emergence of target date funds.

Target date funds have been widely adopted as a default fund, especially in larger corporate plans. They have also been increasingly recognized as an appropriate default investment option by policy makers and regulators, perhaps most famously by the 2006 Pension Protection Act in the US. Recent research from the Pension Research Council at Wharton found that the use of low-cost target date funds could increase retirement wealth by up to 50%,[4] and Canadian industry data has similarly shown material long-term out-performance for plan members who use target date funds, compared to those using other investment options.[5]

### Curated investment options

The second development is an emerging body of academic research, referenced in the recommendations, showing that fewer investment options tend to lead to better member outcomes.[6]

> "Investment line-up practices have evolved since the CAP Guidelines were first introduced, including as result of innovations in fund design (e.g., target date/risk funds and other fund-of-fund designs). The default option can be suitable as the core, if not all, of a member's investments, not just in the context of an absence of member choice."

Low-cost target date funds can

**Enhance retirement wealth by up to 50%**

Performance data is for illustrative purposes and does not guarantee future returns.

4 https://repository.upenn.edu/prc_papers/573/
5 Sun Life, Designed for Savings (2021)
6 Examples include https://repository.upenn.edu/prc_papers/426/, https://www.nber.org/system/files/working_papers/w21854/w21854.pdf, and https://academic.oup.com/rfs/article-abstract/23/4/1405/1591053.

“We believe that Common Wealth is breaking barriers around this [retirement] topic… the design and simplicity of how to save for the future was very differentiated.”

Andrea Bartlett
Director of People Operations

“Line-ups with fewer investment options for members are considered to lead to better member outcomes and more efficient governance reviews for administrators.”

## When investment choice leads to compliance risk

Under the original Guidelines, the primary compliance concern for sponsors was often whether their investment line-up was sufficiently diversified. This would often lead sponsors and advisors to err on the side of providing more funds. The recommendations suggest a shift in this thinking away from member choice and towards member outcomes. They signal that plan sponsors that provide too much investment choice, even under the guise of diversification, may be taking on compliance risk.

Recommendations go on to say, “The Guideline could serve to make administrators, sponsors and their advisors aware of the risks to their standard of care in providing too many options.”

## Common Wealth simplifies investment choice

Common Wealth is backed by over five years of in-depth customer and retirement research, legal diligence, and world-class investment solutions – giving Canadians access to the best possible retirement outcomes for themselves and their families. This is achieved by helping members make informed investment decisions with:

- A streamlined investment line-up built around BlackRock target date funds
- Default investment options based on the member’s planned retirement date
- 9 in 10 members selecting the default fund

## #4: Similar sponsor responsibilities for all CAP plans

### Guidelines should clarify that plan sponsors have a responsibility to members regardless of plan type

OSFI and FSRAO suggest there is a misconception that non-DC plans, such as Group RRSPs or DPSPs, are subject to a less onerous standard. The recommendations call for a common standard across all CAP plans, pointing out that sponsors have an ongoing responsibility to plan members even after they have set up a plan, and that such a responsibility cannot be entirely delegated to service providers.

**"The same factors that inform the common law fiduciary duty within DC pension plan administration may similarly lead a court to find such a duty in non-pension CAP administration."**

OSFI and FSRAO go on to say, "To support the continuous improvement and development of industry practices, the Guideline should explicitly set an expectation of common standards for all CAPs, regardless of the regulatory regime under which the plan operates."

This guidance has several important potential implications:

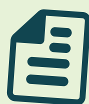
- It strongly suggests that any changes to the Guidelines should apply to equally to all types of plans, including Group RRSPs, DPSPs, and Group TFSAs, and not just DC plans
- It suggests that regulators are of the view that *sponsors of non-DC CAP plans could be seen by courts to have a fiduciary duty to plan members, meaning it would be prudent for plan sponsors to behave as if they have such a duty when engaging in plan design, service provider selection, and plan oversight / renewal*

### Common Wealth helps sponsors with expanded responsibilities

Common Wealth helps employers and plan sponsors embrace the member-centric nature of these new recommendations with:

- Award-winning plan design based on the evidence of what works
- Features designed to help sponsors and advisors get ahead of emerging regulatory trends
- Integration of all plan types (Group RRSP, DPSP, Group TFSA, RRIF) into the same award-winning plan design and digital experience

SPONSOR RESPONSIBILITIES



**EQUAL APPLICATION**

Changes to the Guidelines should apply equally to all types of plans - Group RRSPs, DPSPs, and TFSAs - not just DC plans

**FIDUCIARY DUTY**

Sponsors of non-DC CAP plans could be seen by courts to have a fiduciary duty to plan members

**It is prudent for plan sponsors to behave as if they have fiduciary duty when engaging in plan design, service provider selection, and plan oversight / renewal.**

## #5: Focus on value for money

### Guidelines should place more emphasis on value for money for plan members

The existing Guidelines discuss fees, but mainly at the level of fee disclosure. The recommendations suggest that sponsors have a responsibility, beyond mere disclosure, to deliver value for money for plan members. While this does not necessarily mean the lowest possible fees, it does require an assessment of the scope and value of services delivered in exchange for fees paid.

The recommendations also suggest sponsors should do more to help members understand the impact of fees on their retirement saving and planning, and that the simple disclosure of a Management Expense Ratio may not be enough.

Paired with the earlier point about common standards across all CAP plans, this recommendation suggests that plan sponsors may have an ongoing fiduciary duty to ensure value for money for plan members, potentially including taking their plan to market periodically and considering lower-cost, higher-value options.

### Getting great value for your money with Common Wealth

Common Wealth offers a better experience than legacy solutions for both plan sponsors and plan members with:

- Fees that are consistently lower than legacy providers for all sizes of employers
- Low fees that continue post-employment and into retirement, unlike legacy providers who often double or triple member fees in these situations
- In-app disclosure of the dollar amount members pay in fees each month
- Unique-in-market digital tool to help members understand the impact of fees on the amount they need to save to meet their retirement goals
- A strong orientation to maximizing member value, based on an original research-based methodology about what drives value in good retirement plans, both for members[7] and for employers[8]

7 https://hoopp.com/docs/default-source/about-hoopp-library/advocacy/the-value-of-a-good-pension-102018.pdf
8 https://hoopp.com/docs/default-source/newsroom-library/research/vgp-the-business-case-for-good-workplace-retirement-plans.pdf

# #6: Decumulation support

## Put more emphasis on the post-retirement phase of retirement planning

The regulators recommend more emphasis, in the Guidelines, on the post-retirement, or decumulation, phase of retirement planning, stating that "effective decumulation options are critical to producing the intended outcomes of DC pension plans."

The recommendations highlight three potential types of guidance on decumulation:

- Guidance on how to support members in the decumulation phase
- Guidance on how to communicate decumulation options and practices to members
- Guidance on encouraging in-plan decumulation options

The existing Guidelines say little about the decumulation phase, something that is likely to change in the near future, both because of the OSFI / FSRAO recommendations and because the Canadian Association of Pension Supervisory Authorities (CAPSA) currently has a committee that is reviewing the issue of decumulation.

**"Plans should consider the needs of members for making informed decisions as they enter the decumulation phase and begin to drawdown income. These needs include understanding longevity issues, such as sequencing risk, and being informed of strategies for dealing with such issues. Member needs also include understanding the different investment options available, the importance of fees, and that fees can vary depending on the investment option and may be higher (and have more of an impact) on a retail basis than under their plan."**

As regulators focus more on the decumulation phase, there could be a growing responsibility by sponsors and providers to support members in this stage, either as part of the CAP plan or as members transition out of the CAP plan and consider their alternatives. Regulators seem to be signaling some kind of responsibility for plans to at least educate members on decumulation options and their impact on retirement outcomes.

Might this mean that sponsors will need to provide education for members about alternatives to staying with their existing group retirement plan provider post-retirement, especially where that provider charges significantly higher fees to customers who have left the group plan? Will they need to provide education on annuities and other risk-pooling vehicles that can be effective in dealing with sequence-of-returns and longevity risk? Might regulators begin encouraging the use of annuities within plans, as is part of the US SECURE Act, including through regulatory safe harbours?

While it is difficult to say what greater regulation of the decumulation phase will look like, post-retirement member support is almost certain to receive more regulatory scrutiny in the coming years. Group retirement advisors and plan sponsors would be well advised to shift greater attention there as well.

### 3 potential types of decumulation guidance

| How to support members in the decumulation phase | How to communicate decumulation options | Encouraging in-plan decumulation options |
|---|---|---|

“We did a tremendous amount of due diligence, we spoke to seven different plan providers and Common Wealth was heads and shoulders above the rest.”

Ryan Ayres
Director of People & Culture

### Common Wealth’s decumulation support

- Low fees post-retirement
- Access to deferred life annuities within the plan through our unique Guaranteed Lifetime Income partnership with Brookfield Annuity
- Education and support for members transitioning to retirement and converting their RRSP to a RRIF

## What’s next

According to OSFI and FSRAO, the review of the CAP Guidelines is expected to be completed in 2022. Given their influence and the weight of the Technical Committee’s recommendations, it is likely the revised Guidelines will reflect OSFI and FSRAO’s recommendations.

Even if they do not, there is a strong possibility OSFI and FSRAO may move on their own for the plans that they regulate, and some other regulators may follow suit. This could create a patchwork of regulation across the country.

Prudent group retirement advisors and sponsors may, therefore, wish to treat the OSFI / FSRAO recommendations as the new minimum standard for CAP plans. This kind of proactive adjustment – skating to where the regulatory puck is going, rather than to where it has been – not only helps mitigate compliance risk. It will also help advisors create more value for their clients and their employees, and show real value by improving member outcomes and reducing regulatory risk at the same time.

### Common Wealth is here to help

Our team is committed to supporting advisors and their clients through a period of rapid technological, regulatory, and labour market changes. For questions or more information, contact us.

**Questions?**

Get in touch with a retirement specialist

commonwealthretirement.com

1-855-683-2030

# WE BELIEVE ALL CANADIANS DESERVE FINANCIAL WELLNESS

Ask your benefits advisor about Common Wealth or book a free consultation with us today!

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