JULY 2022

BCFSA's 2021 Survey On Defined Contribution Pension Plans

Summary of Responses

BCFSA

Contents

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1. Purpose

In September 2021, BC Financial Services Authority ("BCFSA") sent a survey to 472 defined contribution ("DC") pension plan administrators ("Administrators").

The purpose of the survey was to:

- establish a baseline understanding of how BC's DC plans manage the fundamental risks and stimulate optimal members outcomes; and
- inform the construction of BCFSA's supervisory framework for DC plans.

This Report discusses the survey results and looks at some best practices for DC plans.

2. Background Information

The survey questions focus on plan activities that relate to the following fundamental risks identified in our supervisory framework for DC plans:

- Administration and governance risks;
- Financial risks; and
- Member education/communication risk.

An overview of our supervisory framework for DC plans is set out in Appendix A to this Report. Definitions of terms used in the survey as well as in this document are contained in Advisory Number: 21-026 dated September 10, 2021.

3. Response Rate

We received responses from 113 Administrators, covering approximately 23 per cent of DC plans that BCFSA regulates and representing approximately 45 per cent DC plan membership. Employers administering more than one DC plan registered in BC were asked to complete the survey just once, based on information for their largest DC plan.

Response Rate/Coverage for Completed Surveys Received

Plan Size (By Number of Plan Members)	Number of Plans	Response Rate*	Total Plan Membership Covered*	Membership Coverage Rate*
Fewer than 100	65	19%	2,052	18%
100 – 499	25	22%	6,059	25%
500 – 999	8	67%	5,770	70%
1000 or more	15	71%	34,720	53%
Overall	113	23%	48,601	45%

*Based on Annual Information Returns filed as of August 2021.

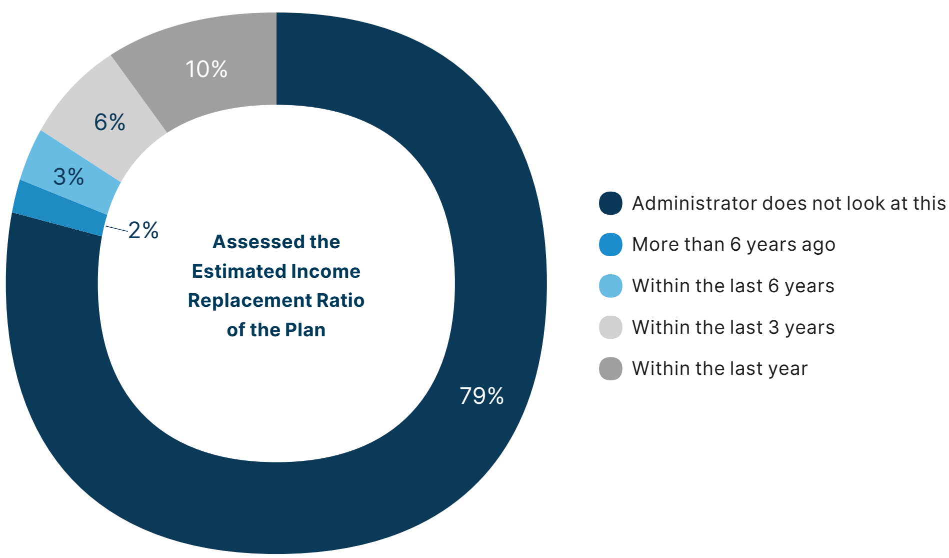
4. Survey Results

Overall, the responses suggest that many DC plans would benefit from enhanced governance and have opportunities to improve in monitoring both members' outcomes and administrative functions, including member education strategies.

The survey results presented below are categorized based on major plan activities and administrative functions for DC plans, but not in the order of the survey questions.

OUTCOME-FOCUSED DECISION MAKING

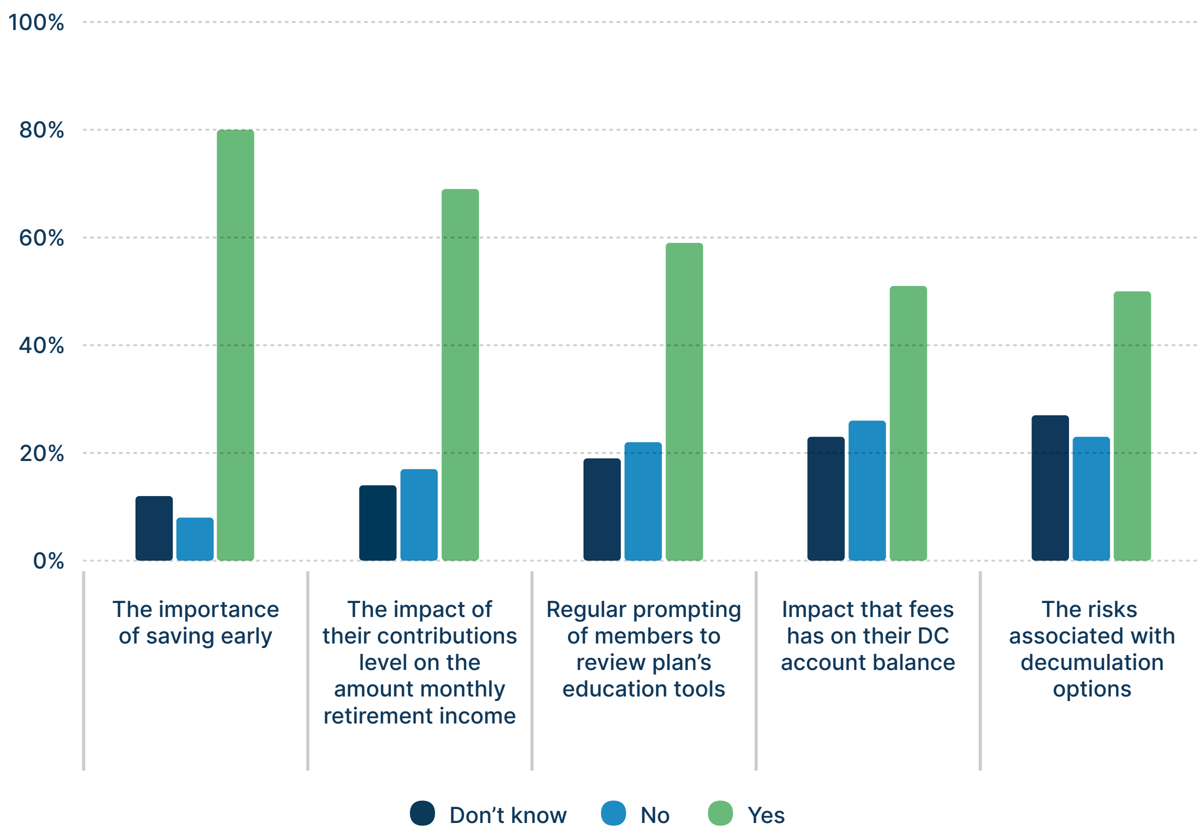
Rather than thinking of a DC account as simply a savings vehicle, the focus is shifting to recognize that the ultimate purpose of a DC pension plan is to provide members with lifetime retirement income. As such, the decision-making process for both Administrators and members, and the governance oversight by Administrators, should be member-outcome focused. One metric Administrators may use for measuring plan member outcomes, to guide decision making, is the ratio of estimated future retirement income to an employee's pre-retirement income. In response to our survey, 21 per cent of respondents replied that they have estimated the level of income replacement their pension plan would provide. Amongst the respondent plans that have 1000 or more members, over 1/3 indicated that they review that ratio.



EDUCATION STRATEGY

Member educational materials, tools and strategies should be geared towards the DC plan's purpose of providing a retirement income and be designed to improve member decisions and outcomes. In that vein, 50 per cent of respondents indicate they have reviewed the effectiveness of the plan's education strategy by looking at member behaviours, choices, or outcomes, and then considered adjusting their strategy (as needed) based on that review. The proportion of plans reporting that they regularly prompt members to review educational materials about their pension plan was 59 per cent. There are also other areas of members education offered by Administrators (see chart below).

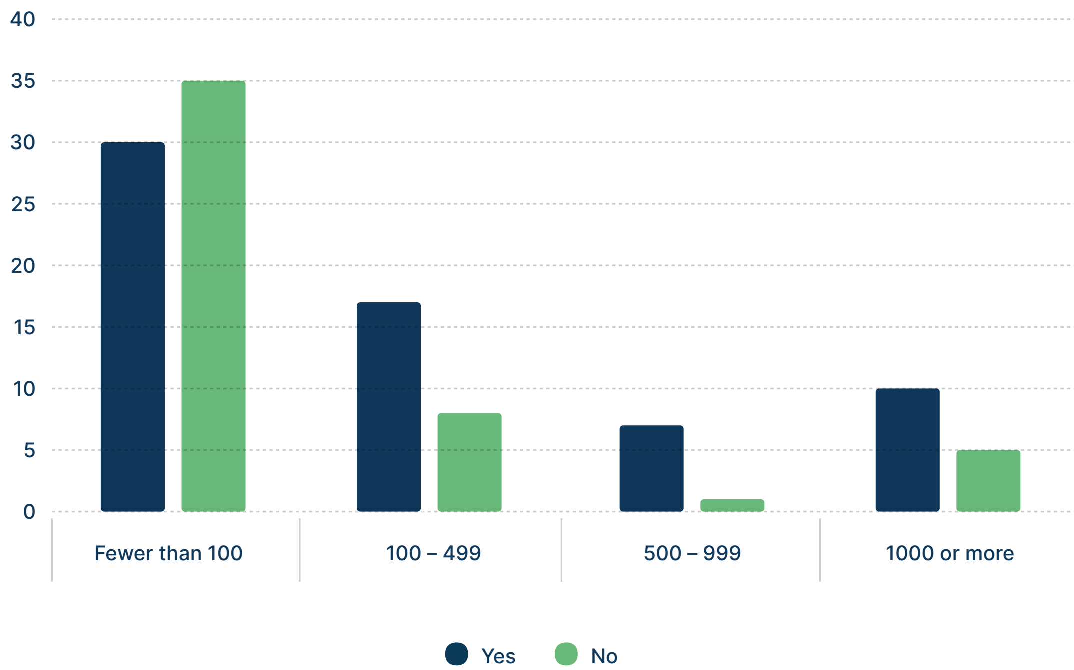
Member Education Provided



To help members understand the level of income they will need in retirement, 65 per cent of plans responded that they provide members with a tool for estimating future expenses in retirement years. On the income side, 61 per cent of respondent plans provide members with a projection of the retirement income their DC plan account balance may produce, helping members understand whether they are on track to cover their estimated retirement expenses.

Focusing on a DC plan's goal of providing retirement income also leads to awareness of some of the factors affecting the level of income that a member may ultimately receive: *effective contribution decisions*, *effective investment decisions*, and *effective decumulation decisions*. It also highlights the actions plan members and Administrators can take early to optimize members' potential income from the plan. This includes the benefits of automatic plan features, such as plan enrollment being the default rather than an option requiring member action, and auto-escalation of contributions when members grow older or receive pay increases. For responding plans, 57 per cent report that they automatically enrol employees in the pension plan.

Auto-enrollment (Count of Plans Per Plan Size by Number of Members)



EFFECTIVE CONTRIBUTION DECISIONS

Members are required to contribute to their DC plan for 56 per cent of the plans responding. The level of member contributions increases with the member's age, service, or pay level for 32 per cent of survey respondents. Employers will match the amount of a member's contributions, to a certain level, in 84 per cent of the contributory plans responding. Of those plans offering "employer matching" of member contributions, over half of the respondents report that all members in their plan contribute at a level that is sufficient to receive the maximum amount of potential employer contributions. This may point to a need for increased education from the remaining plans where members are leaving employer contribution-matching dollars on the table.

With respect to contribution-related member education:

- 59 per cent of plans provided contribution planning tools;
- 80 per cent educated on the importance of saving early; and
- 69 per cent explained the impact of contribution level on member's outcomes.

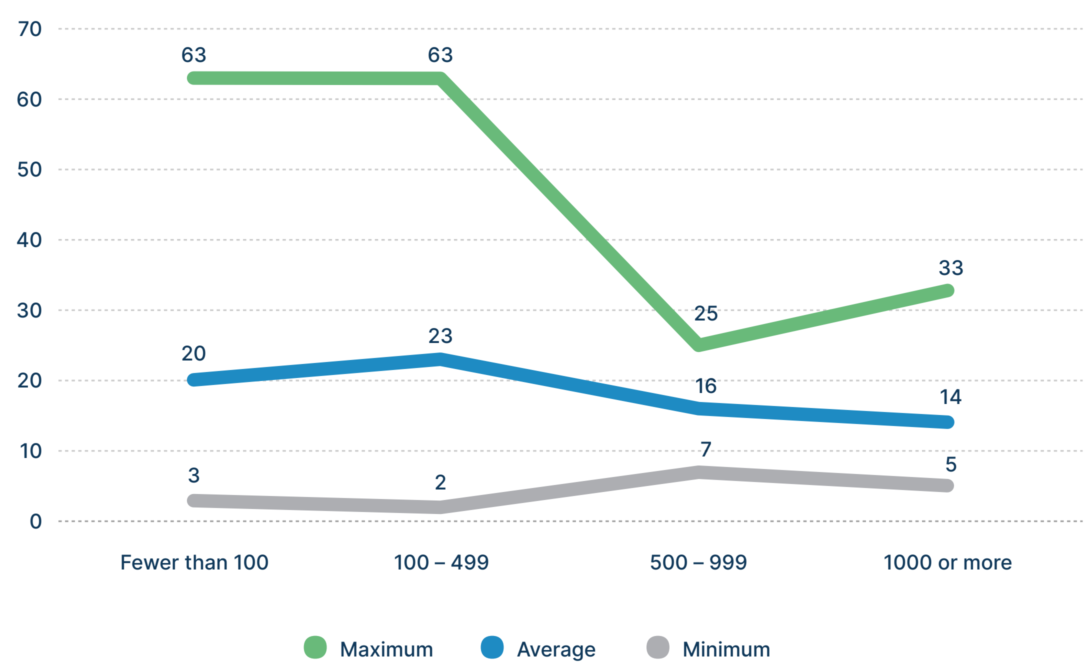
EFFECTIVE INVESTMENT DECISIONS

For 85 per cent of responding plans, members have the option to select the fund(s) in which their DC account is invested. Of those plans, 72 per cent provide a tool for members to assess their investment risk appetite and 71 per cent provide investment selection tools that include information on the risks associated with each investment option.

Plan Administrators must set a default investment fund for members who fail to elect an investment option. Section 68(4)(b) of the *Pension Benefits Standards Regulation* ("PBSR") stipulates that the default must be either a balanced fund or a fund that takes into account the member's age (such as a target-date fund). Overall, the time horizon of the specific default investment should be appropriate for the time horizon of the plan's membership. When asked about the default option in their DC plan, half of the respondents indicate their plan used an age-based fund while 47 per cent used a balanced investment fund as their default. Three plans responded that they had a cash-like default option, which needs to be rectified.

The more investment options offered by a plan, the more challenging it may be for the plan Administrator to conduct sufficient due diligence, oversight, and education on each option, and the harder it may be for members to choose amongst them. Hence, for plans that allow members to select their investments, Administrators may consider limiting that choice to a lineup of fewer investment options. Overall, of the respondent plans that offer member investment choice, the average number of reported investment options offered is 20, while 33 per cent offer over 20 investment options, and 9 per cent offer over 40 different options.

Number of Investment Options (Plan Size by Number of Members)



EFFECTIVE DECUMULATION DECISIONS

Once plan members are ready to turn their DC account balance into retirement income, a variety of options are available. For instance, 42 per cent of survey respondents provide members the option to withdraw retirement income directly from the plan through a life income type benefits account. Administrators should consider the educational needs of members approaching the retirement stage. Members may face new kinds of choices for which they have no prior experience, including which combination of income options would best suit their retirement income and estate planning needs. Half of the survey respondents report that they educate members on the risks associated with the various benefit settlement options available to them.

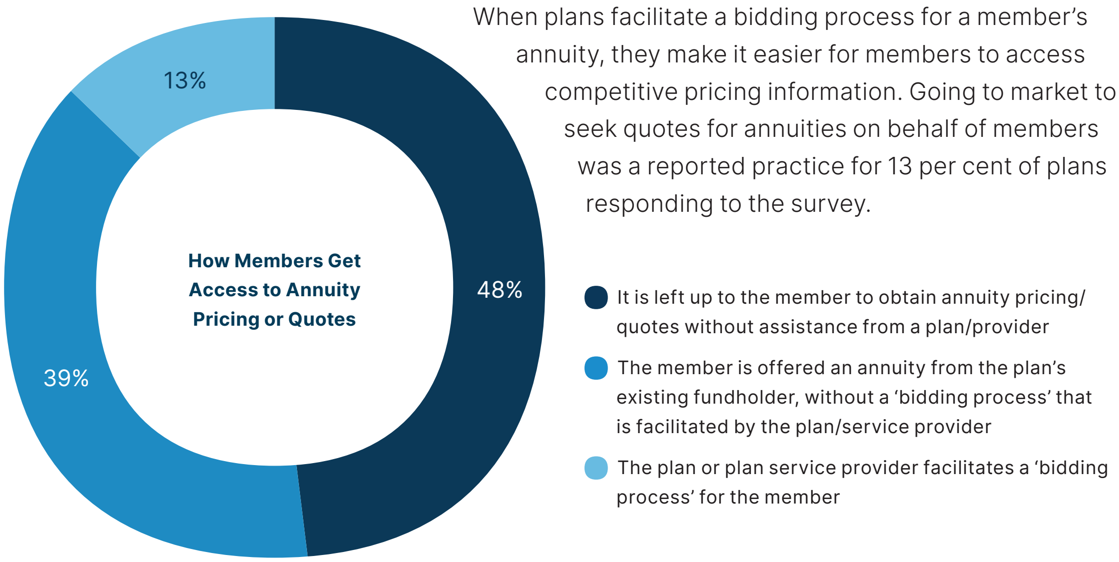
Over 60 per cent of respondents report that when a member does not provide an explicit election for their benefit settlement, the plan's default action(s) included one or more of the following:

- Transfer to a registered account set up by the plan's existing fundholder;
- Purchase of an annuity from the plan's existing fundholder without going to market;
- Purchase of an annuity after a bidding process;
- Transfer to a life income type benefits account within the pension plan.

Pointing to a need for sound governance to mitigate potential conflict of interests and ensure appropriate investments and value for money:

- 34 per cent of plans indicate their benefit settlement options include registered retirement products offered by their plan's existing fundholder; and
- 39 per cent of respondents report that members are offered annuities only from the plan's existing fundholder without pricing from other insurers being represented.

When plans facilitate a bidding process for a member's annuity, they make it easier for members to access competitive pricing information. Going to market to seek quotes for annuities on behalf of members was a reported practice for 13 per cent of plans responding to the survey.

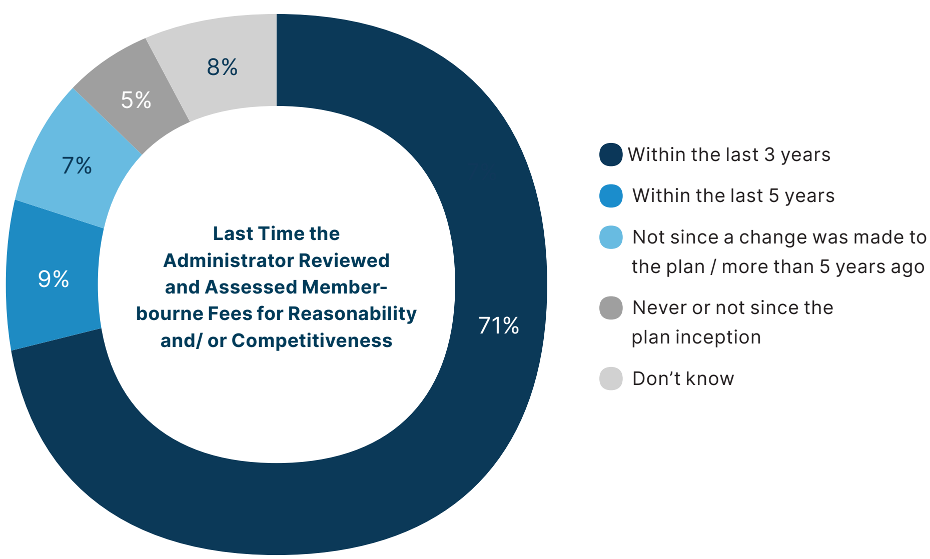


PLAN GOVERNANCE AND ADMINISTRATION

Review of Member-borne Fees and Expenses

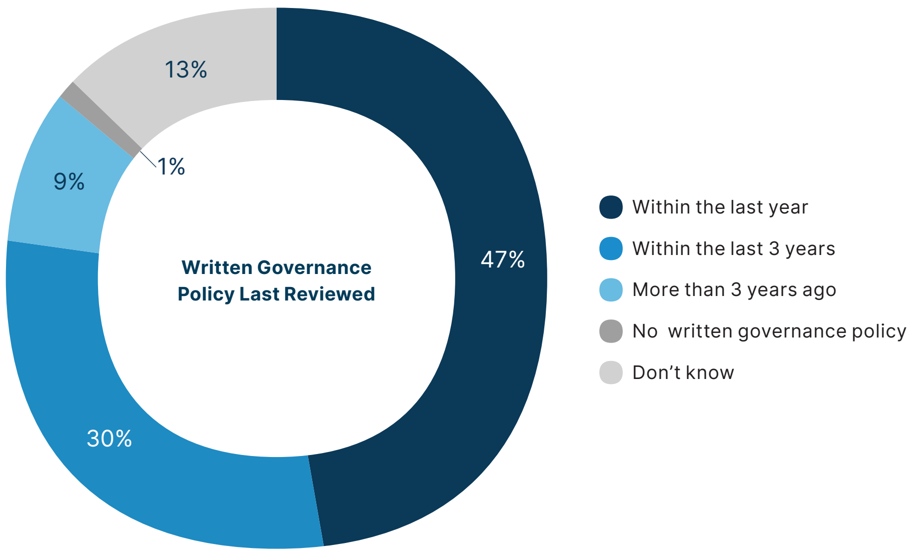
When making decisions that impact plan members, whether related to plan design, administration, or specific decumulation or investment options/defaults, DC plan Administrators should aim to achieve value for money in relation to the fees and expenses paid or borne by the members. Plan Administrators should understand the impact those fees have on the member's potential retirement income and ensure that this impact is clearly explained to members. Of the respondent plans, 51 per cent report providing education about the impact of those expenses on the members' DC account balance and the estimated monthly retirement income it may produce.

Since members cannot directly influence the level of investment or non-investment fees and expenses they are charged, it is expected that plan Administrators regularly assess whether the Plan's member-borne expenses are competitive and come with justifiable, tangible benefits for members in terms of net investment return, quality of education, or other beneficial services to members. Overall, 71 per cent of the respondent plans had reviewed member-borne fees within the past three years. For respondent plans with more than 100 members, over 87 per cent of survey respondents report that they had reviewed the fees within the past three years, while 58 per cent of plans with under 100 members did so.



Review of Governance Policy

Regular and robust governance oversight by DC plan Administrators is not limited to the review of fees and expenses. Section 42 of the *Pension Benefits Standards Act* ("PBSA") stipulates that each pension plan must have a written governance policy and must be administered in accordance with that policy. Plans are expected to regularly review the administration and governance of the plan, including the governance policy document. Overall, 77 per cent of respondent plans report reviewing their governance policy at least once within the last three years. Large and mid-sized plans report more frequent review of their governance policies than plans with under 500 members.



In the governance policy, a plan Administrator must identify material risks that apply to the plan and establish internal controls to manage those risks as per section 50(h) of the PBSR. Risks inherent in information technology are becoming increasingly relevant and prevalent. As outlined in our Information Security Guideline, BCFSA expects Administrators to include cybersecurity in their overall risk management strategy by September 30, 2022[1]. Based on survey responses, a written cybersecurity policy was on file for 44 per cent of plans responding.

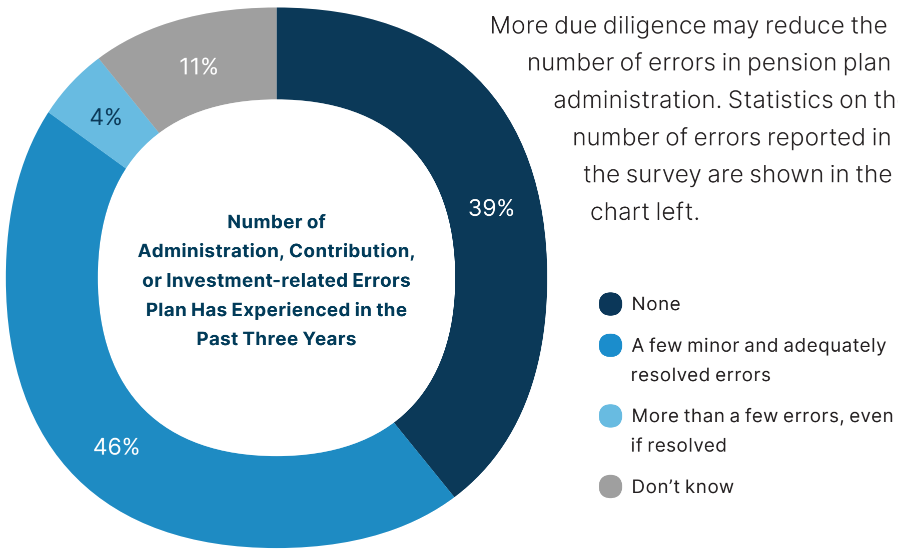
1 For more information, please refer to our Advisory dated October 1, 2021.

Review of Administration Oversight

Plan Administrators are expected to have adequate controls, procedures, checks and balances in place for the plan's administration activities. When asked about the following key administration activities:

- 96 per cent of respondents report having a process in place for checking and reconciling contribution remittances; and
- 65 per cent of respondents believe their checks of investment calculations are sufficient.

However, 10 per cent of respondents report that they lack sufficient procedures for verification of payment amount and eligibility, while 13 per cent of respondents say they did not know if they had sufficient procedures in this area.

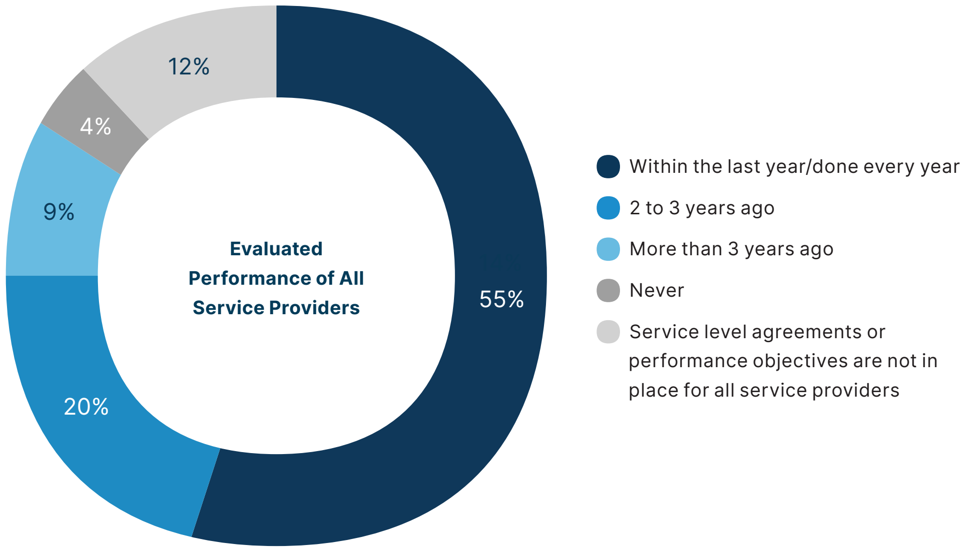


More due diligence may reduce the number of errors in pension plan administration. Statistics on the number of errors reported in the survey are shown in the chart left.

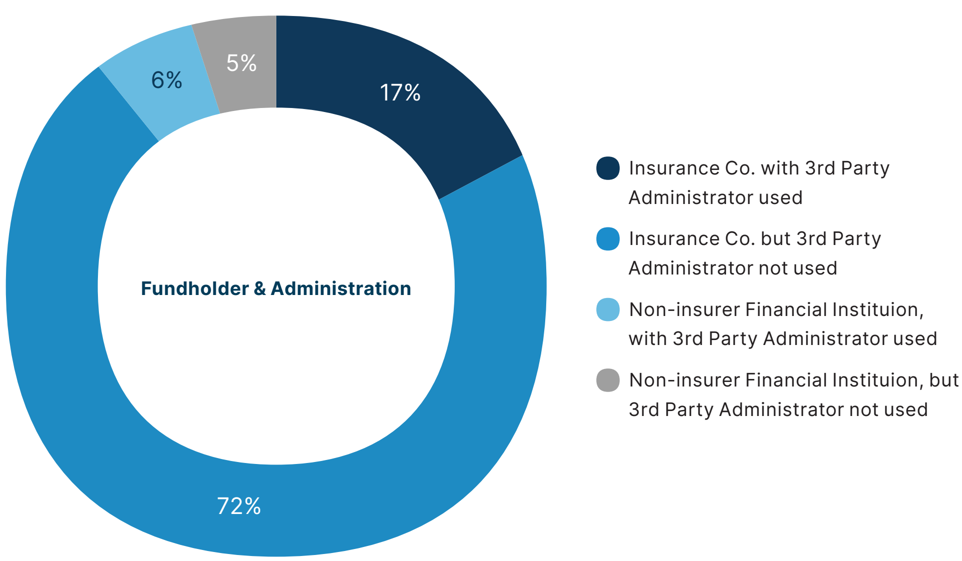
Review of Service Providers

Per section 50(c) of the PBSR, a governance policy must describe the roles, responsibilities and accountabilities of the parties involved in plan operations.Plan Administrators should be aware that even where they have delegated certain tasks or functions to service providers, the plan Administrator retains both the ultimate responsibility for administering and overseeing their DC plan and the fiduciary duty to act in the best interests of its members.

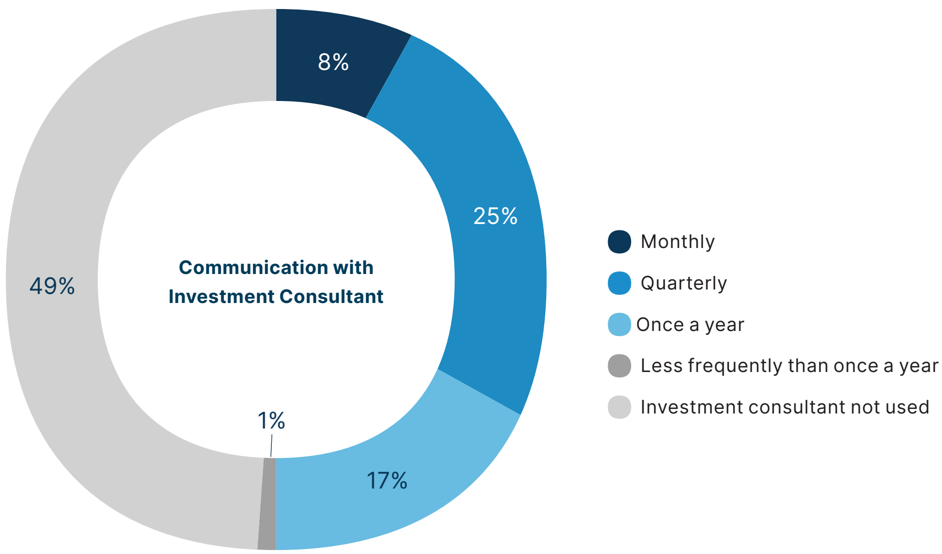
Section 35 (7)(b) of the PBSA provides that a plan Administrator must conduct reasonable and prudent supervision of any service providers. To that end, a governance policy also must include a process for monitoring service providers based on pre-established and documented performance objectives. It is considered best practice for plan Administrators to review the performance of their service providers at least annually; 55 per cent of respondents report they are doing so.

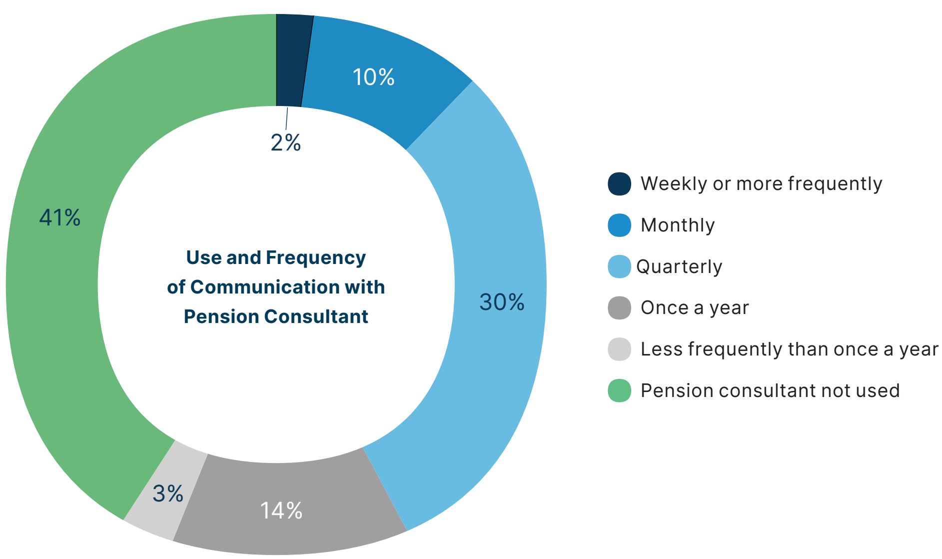


While service provider oversight is always important, it is especially relevant in situations where the plan does not have independent professional parties advising the plan Administrator, beyond the fundholder. A plan Administrator should take care to not rely overly on their service providers, being vigilant against biased advice or conflicts of interest. A large majority of plans, 77 per cent, responded that they do not have a third-party pension administration service provider over and above their fundholder institution. Just under 1/3 of plans responded that they have neither a pension consultant nor an investment consultant advising the plan Administrator. Nearly 30% of respondent plans indicated that their plan makes a personal financial advisor available to their members.



The survey also asked how often the plan Administrator discusses the pension plan with each service provider. For those that report using a pension or investment consultant, the majority report that they discuss plan matters with those service providers at least once a year, with many engaging with those advisers more frequently.

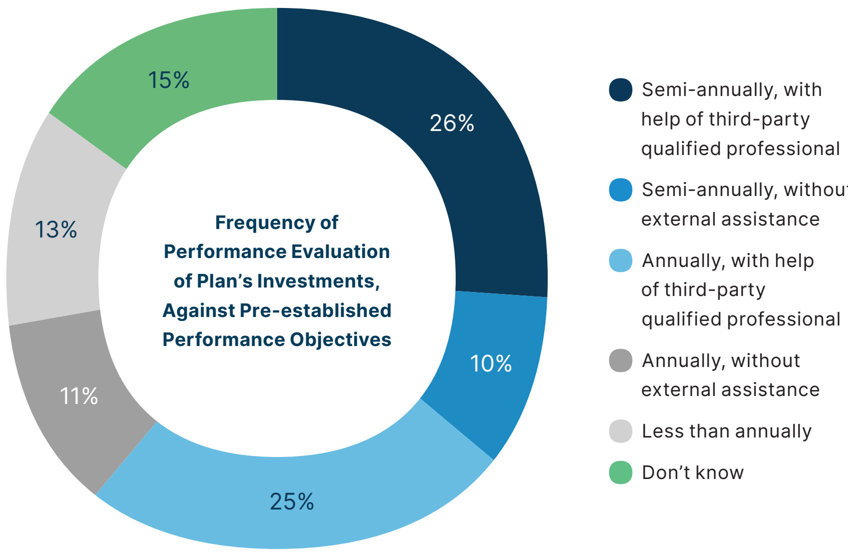




Review of Investments

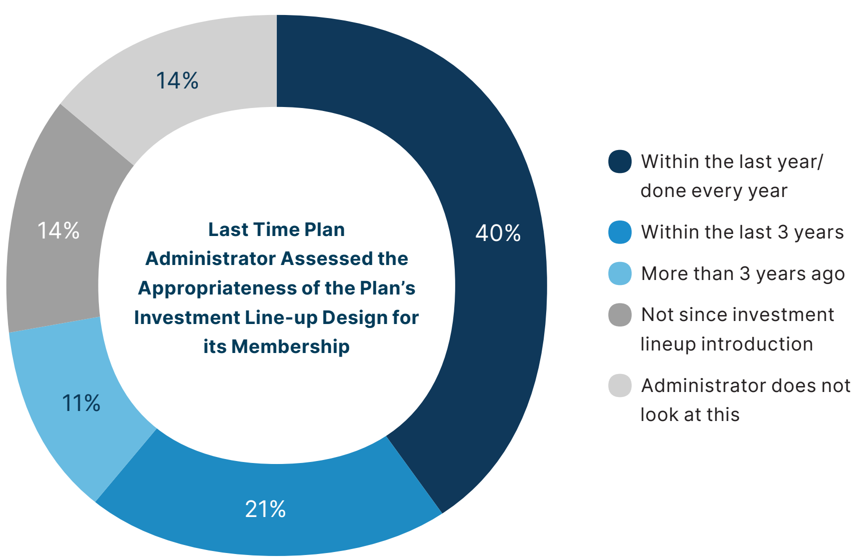
Best practice is to review the appropriateness and performance of the plan's investment options/portfolio at least annually. With respect to monitoring how the investment funds/options performed, 28 per cent of survey respondents report that they either do not review investment performance at least annually and or 'do not know' whether performance is reviewed.

Different plan members have different risk appetites; 40 per cent of survey respondents replied that the plan administrator had assessed the appropriateness of the plan's investments within the past year, by taking into account the characteristics of plan membership and the levels of member engagement and financial literacy.



ADDITIONAL INFORMATION

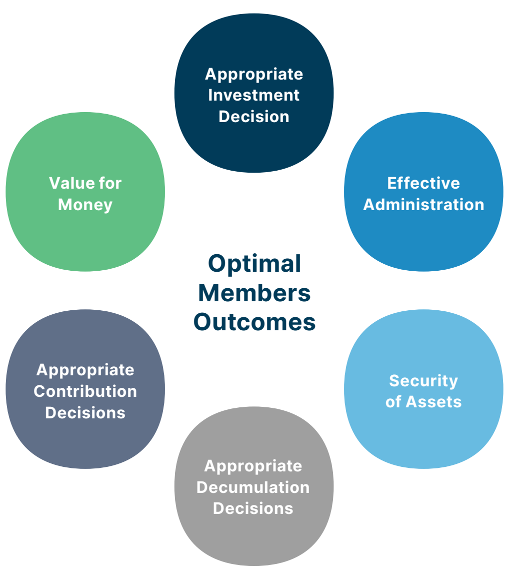
If you have any questions, please contact the Office of the Superintendent of Pensions at pensions@bcfsa.ca or by phone at 604-660-3555.

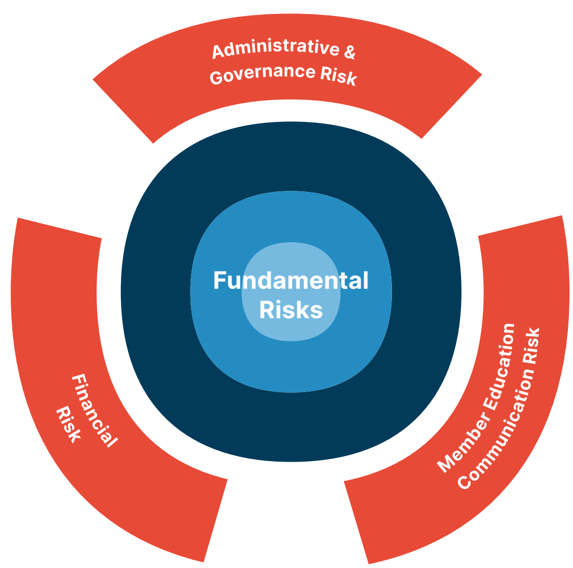


5 Appendix A – Overview of BCFSA's Supervisory Framework for DC Plans

The DC survey results will inform the construction of BCFSA's supervisory framework for DC plans. While a few of the results reported surprised us, the responses provide us with opportunities for further review.

BCFSA will publish a DC risk-based supervision framework based on key principles and risk drivers. Overall, our process will focus on promoting the DC optimal member outcomes as well as managing the fundamental risks that threaten the achievement of those outcomes. Our primary objective is to promote the adoption by plan Administrators of policies and procedures designed to manage the various types of risk faced by pension plans and their members.





Our framework is based on the premise that the ultimate objective of the DC plan is to achieve an adequate lifetime pension. Administrators will be encouraged to make decisions that will assist members to achieve this goal.

Our work is based on the *Pension Benefits Standards Act* and the *Pension Benefits Standards Regulation*, *Regulatory Information*[2] issued by the Superintendent of Pensions, guidelines issued by the Canadian Association of Pension Supervisory Authorities ("CAPSA"), the International Organisation of Pension Supervisors, and industry best practices.

BCFSA expects all DC pension plan administrators to follow the applicable CAPSA best practice guidelines when designing, administering and overseeing their plans, and to be continuously engaged in fostering the achievement of positive outcomes for their members. Of particular interest to both Administrators and members is CAPSA's Member Guide for DC Plan Members published in October 2021.

2 Regulatory Information is comprised of Regulatory Statements, Guidelines, and Advisories.

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