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F2RET
Pension Financial Reporting
Comprehensive Summary

1st Edition

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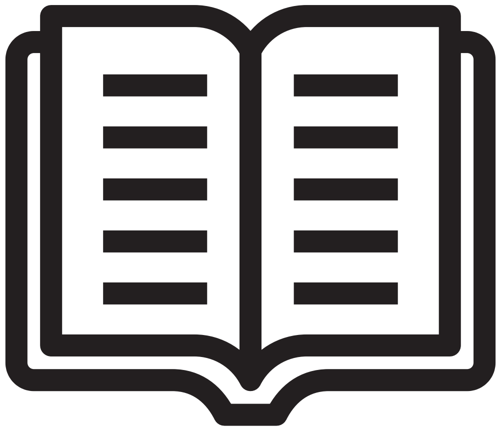

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NOTES

Welcome to the F2RET study manual, your guide to mastering pension financial reporting on the path to your FCIA. Building on the foundation you gained in F1RET – Pension Funding and Regulation, this exam focuses on how those pension promises are portrayed in the financial statements and communicated to stakeholders.

Think of this as your go-to resource for turning the F2RET syllabus into a practical study plan. You can use it to structure your reading, focus your practice on written-answer skills, and build confidence with the types of pension reporting questions you will see on exam day in this open-book, application-heavy environment.

This manual lays out the syllabus in a clear, sensible way, with an emphasis on how to study and apply the material:

- Core financial reporting concepts for pension and post-retirement plans, including key accounting measures and disclosures.
- Links between accounting standards, pension legislation, and plan design in real-world situations.
- Techniques for interpreting case studies, reconciling results, and drafting well-structured written answers.
- Tips on using the open-book format effectively without relying on "searching during the exam," so your notes and templates work for you.

By the time you finish working through this manual, you will not just be ready for F2RET, but you will have deeper, exam-tested insight into how pension financial reporting supports sound actuarial advice and professional practice in Canada.

Contents

SECOND REVISION EDUCATIONAL NOTE: SETTING THE ACCOUNTING DISCOUNT RATE ASSUMPTION FOR PENSION AND POST EMPLOYMENT BENEFIT PLANS

Objective:

1. Guides actuaries advising plan sponsors on selecting the accounting discount rate for Canadian DB pension and post-employment benefit plans
2. Plan sponsor is responsible for assumption selection; the actuary provides guidance.

Accounting Standard Requirements

1. Discount rate must reference market yields at the measurement date on high-quality corporate debt with cash flows matching the timing and amount of expected benefit payments.
2. Three interpretive issues arise:
    a. What is “high quality”? Aa-rated or higher corporate bonds
        i. No Aaa-rated C$ corporate bonds with long maturities existed at the time of writing, so Aa is the practical standard.
    b. How to address lack of long-maturity instruments? → addressed by extrapolation (Sections 3, 6, 8).
    c. Which instruments to include? → addressed by bond universe criteria (Section 5).
3. Canada: Inadequate Long Aa Corporate Bonds
    a. Deep Aa corporate market exists only for maturities under 10 years .
    b. This forces reliance on extrapolation techniques for the long end of the yield curve which is the most material segment given the long duration of pension liabilities.
4. Four-Step Framework for Selecting the Discount Rate
    a. Step 1: develop (or obtain from a third party) a yield curve based on Aa-rated corporate bonds

   b. Step 2: convert yields to spot rates (zero coupon bond yields)
   c. Step 3: calculate PV of expected benefit payments using spot rates
   d. Step 4: identify the single equivalent discount rate that produces the same present value
5. Granular approach alternative: some sponsors apply the spot curve directly (step 2) to benefit cash flows without converting to a single rate.

Five Factors for Building the Aa Corporate Yield Curve

1. Long-end extrapolation method − most critical (see the section below)
2. Bond universe characteristics:
   a. Exclude bonds < $100M market cap (thin trading, unreliable pricing).
   b. Exclude bonds that are callable (without make-whole), puttable, convertible, sinkable, extendable, perpetual, variable coupon, or inflation-linked.
   c. Consider whether private placements should be included (pricing reliability key).
   d. Quasi-government bonds (energy utilities, airport authorities, universities): actuary decides whether they qualify as corporate; if not, can be used in extrapolation with adjustments.
   e. Outlier bonds: actuary must weigh arguments for and against exclusion (subjectivity is a concern).
3. Market volatility considerations:
   a. Stale prices (no recent trades) become less reliable in volatile markets.
   b. Bid-ask spread widens − actuary considers using bid, ask, or mid.
   c. New issue concessions (higher yields on new issues) can be material in stress periods.
4. Weighting of bonds:
   a. By market cap - risk of large issuers dominating.
   b. Equal weight - risk of small issuers dominating.
   c. Hybrid: acceptable.
5. Curve fitting: requires mathematical judgment (e.g., regression). Especially important at the long end where data is scarce.

Extrapolation Approaches Considered

1. Guiding principles for evaluating extrapolation approaches
   a. Must comply with the Accounting Standards
   b. Robust across varying market conditions
   c. Avoids reliance on very few data points
   d. Minimizes subjectivity and complexity
2. Currently recommend approach to increase usable data points for maturities > 10 years:
   a. Approach: Aa provincial bonds + A corporate bonds → interpolated spread adjustment added to provincials
   b. This approach range-bounds the Aa corporate yield between the Aa provincial yield and the A corporate yield, preventing inversions − more robust in stress conditions

Spread Adjustment Mechanics of the Current Recommended Approach

1. Core premise:
   a. Aa corporate yields > Aa provincial yields, but Aa corporate yields < A corporate yields (for similar maturity/sector).
   b. The ratio of the two spreads is stable across the maturity spectrum.
2. Two spread calculations using 3.5 − 10.5 year bonds:
   a. $\text{Spread}_{\text{CorpAa}-\text{CorpA}}$ = average of (Aa corporate yield − A corporate yield) for maturities 3.5 − 10.5yrs. → Expected to be negative (Aa < A).
   b. $\text{Spread}_{\text{CorpAa}-\text{ProvAa}}$ = average of (Aa corporate yield − Aa provincial yield) for maturities 3.5 − 10.5yrs. → Expected to be positive (Aa corp > Aa prov)
3. Provincial Spread Adjustment = A × B
   a. A = Provincial Spread
   b. $B = [\text{Spread}_{\text{CorpAa}-\text{ProvAa}} / (\text{Spread}_{\text{CorpAa}-\text{ProvAa}} - \text{Spread}_{\text{CorpAa}-\text{CorpA}})]$
4. Example
   a. $\text{Spread}_{\text{CorpAa}-\text{CorpA}} = -50\text{bps}$
   b. $\text{Spread}_{\text{CorpAa}-\text{ProvAa}} = +75\text{bps}$
   c. Provincial Spread = 200bps
   d. Adjustment $= 200 \times 75/(75 - (-50)) = 120\text{bps}$ added to the provincial bond yield

Yield Curve Construction Steps

1. Select suitable bonds from all three groups: Aa corporate, Aa provincial, and A corporate
2. Fit curves to Aa provincial and A corporate bond data across all maturities.
3. Calculate $\text{Spread}_{\text{CorpAa}-\text{CorpA}}$ using Aa corporates in the $3.5 - 10.5$ year band.
4. Calculate $\text{Spread}_{\text{CorpAa}-\text{ProvAa}}$ using Aa corporates in the $3.5 - 10.5$ year band.
5. For each Aa provincial bond > 10.5 years: compute Provincial Spread and apply the adjustment formula.
6. Fit final curve to Aa corporate bonds (all maturities) and adjusted provincial bonds (>10.5 years)
7. This final curve is the starting point for deriving the accounting discount rate. Then proceed through the 4 -step framework (See "Four-Step Framework for Selecting the Discount Rate" above)

Monthly Published Curve

1. The CIA partnered with Fiera Capital Corporation to publish a monthly spot curve
2. This is not the only acceptable approach – it is a practical, consistent reference tool.

Standards of Practice – Use of Third-Party Work

1. Three key SoP paragraph
   a. 1510.04: actuary may or may not take responsibility for third-party work; taking responsibility gives users more confidence but increases risk/effort.
   b. 1510.06: if no responsibility is taken, report with reservation.
   c. 1510.12: even without responsibility, actuary must examine work for evident shortcomings.
2. Actuary must pay particular attention to how the long-end scarcity was addressed in any third-party curve.

CPA CANADA HANDBOOK-ACCOUNTING

Sections: Preface; Part I (Introduction to Part I); Part II (Section 3462)

Preface

1. The CPA Canada Handbook − Accounting is:
   a. The official, authoritative source of accounting standards in Canada
   b. Maintained by the Accounting Standards Board (AcSB)
2. All entities preparing financial statements under Canadian GAAP must follow it
3. Pension plans and benefit plans are separately defined entities under this Handbook, which determines which accounting rules apply to them
4. Different rules apply depending on the type of entity (public, private, pension, etc.)
5. Public sector entities use the separate Public Sector Accounting Handbook instead

Key Definitions

Publicly Accountable Enterprise

1. It has debt or equity traded in a public market (e.g., stock exchange, OTC), OR holds assets in a fiduciary capacity for a broad group of outsiders as a primary business
2. Examples: banks, credit unions, insurance companies, mutual funds, investment dealers
3. Does not include entities that hold assets in a fiduciary capacity only incidentally (e.g., travel agents, utilities collecting advance payments)

Private Enterprise

1. Profit-oriented entity that is NOT publicly accountable
2. Uses a different part of the Handbook (ASPE − Accounting Standards for Private Enterprises)

Not-for-Profit Organization (NFP)

1. No transferable ownership interests
2. Operated for social, educational, professional, religious, health, or charitable purposes
3. Members/contributors receive no financial return from the organization

Pension Plan

1. Any arrangement (formal contract or otherwise) that establishes a program to provide retirement income to employees

Benefit Plan

1. Any arrangement where an entity provides employees with benefits during and/or after active service in exchange for services
2. Broader than pension plans – includes health, disability, life insurance, etc.

Introduction to Part I

Part I

1. IFRS Accounting Standards as adopted into Canadian GAAP by the Accounting Standards Board (AcSB)
2. The AcSB adopts IFRS without change in virtually all cases. IAS 19, as issued by the IASB = IAS 19 in Canada
3. Part I applies to publicly accountable enterprises (PAEs) – e.g., listed companies, banks, insurers
4. Other entities (private companies, NFPs) may also choose to apply Part I, but are not required to

Contents of Part I

1. Contains IFRS Accounting Standards adopted by the AcSB – not all IASB-issued standards automatically qualify
2. Two buckets:
   a. Currently effective standards → "IFRS Accounting Standards in effect on January 1 [20XX]"
   b. Issued but not yet effective → separate section for future standards
3. Standards replaced or amended carry a caption pointing to the future-effective section

4. IASB standards where AcSB due process is not yet complete are not in the Handbook – important for exam timing questions

AcSB's Adoption Policy

1. Default policy: adopt IFRS without modification
   a. Exception: in rare cases, after due process, AcSB may decline to adopt or modify an IASB standard
   b. As of the 2026 edition: no such exceptions exist
2. Non-authoritative IASB material (e.g., guidance, basis for conclusions) may be included selectively where it supports application by Canadians

IFRS for SMEs

1. Part I does not include the IFRS for SMEs Standard
2. An entity using IFRS for SMEs cannot claim its statements are prepared under Canadian GAAP

Basis of Accounting

1. Entities applying Part I state their financial statements are prepared in accordance with IFRS Accounting Standards
2. They are permitted but not required to also state compliance with Canadian GAAP
3. This applies even if the entity adopted IFRS early, before those earlier versions were formally part of Canadian GAAP

Part I Section 3462 Employee Future Benefits

1. Section 3462 is part of Accounting Standards for Private Enterprises (ASPE)
2. Tells companies how to recognize, measure, and disclose the cost of promising future benefits to employees

Scope

1. Benefits earned now but paid later, including:
   a. Pension/retirement benefits (e.g., pension, health care, life insurance after retirement)
   b. Post-employment benefits (e.g., disability, severance, salary continuation)
   c. Compensated absences (e.g., parental leave, accumulating sick days, sabbaticals)
   d. Termination benefits (e.g., payments when employment ends)

2. Does not cover:
    a. Regular wages/salaries/bonuses paid in the current year
    b. Stock-based compensation
    c. Occasional sick days that do not accumulate beyond 12 months

Two Types of Plans

1. Defined benefit and defined contribution
2. If a plan has features of both, classify based on economic substance, not its label.

Definitions

1. Defined benefit obligation (DBO): present value of all future benefit promises
2. Defined benefit liability/asset: DBO minus plan assets (negative = liability; positive = asset, subject to a cap)
3. Attribution period: the years of employee service over which the obligation is spread/allocated
4. Actuarial assumptions: best estimates of future events: mortality, turnover, salary growth, discount rate, etc.
5. Actuarial gains/losses: when actual experience differs from what was assumed
6. Curtailment: a significant reduction in future service years or benefit rights (e.g., layoff, plan freeze)
7. Settlement: irrevocably discharging all or part of the DBO (e.g., buying annuities, lump-sum buyouts)
8. Past service cost: change in DBO from introducing or amending a plan (relating to prior service)
9. Valuation allowance: reduces a plan surplus asset when the surplus exceeds what the company can actually realize
10. Full eligibility date: the date an employee has earned the right to all expected benefits – marks end of attribution period
11. Remeasurements and other items (catch-all): actuarial gains/losses, difference between actual vs. expected return, past service costs, settlement/curtailment gains/losses

Accounting for DC Plans

1. Cost for a period = A + B + C − D
    a. A = current service cost (contributions required now for current-year service)

   b. B = past service cost (if plan amended to give credit for prior service, recognize in that period)
   c. C = interest cost on accrued but not-yet-paid contributions (discounted if payable more than 12 months out)
   d. D = interest income on any unallocated surplus (if a DB plan was converted to DC and surplus remains)
2. No actuarial valuation needed (unless contributions are deferred far into the future).

Accounting for DB Plans – Measurement

Step 1 – Choose a Valuation Method

1. Two options (policy choice, applied consistently):
   a. Option A - accounting valuation:
      i. Use management's best-estimate actuarial assumptions; required if no funding valuation is legally required
   b. Option B - funding valuation:
      i. Use the most recently completed funding valuation (if legally required and meets certain criteria); excludes solvency/wind-up basis

Step 2 – Pick the Actuarial Cost Method

1. Projected Benefit Method prorated on services:
   a. Use when future salary levels affect benefits (e.g., final-pay pension).
   b. Projects salary to retirement, then allocates cost equally over service years.
2. Accumulated Benefit Method:
   a. Use when future salary does not affect benefits (flat-benefit plans).
   b. Based on current salary and service to date.

Step 3 – Attribution Period

1. Starts: date of hire (or start of credited service if plan only grants credit from a later date)
2. Ends: full eligibility date (when all benefits are earned)
3. If significant incremental benefits are earned beyond the normal credited service period, extend the attribution period

Step 4 – Actuarial Assumptions

1. Must be management's best estimates, internally consistent.
2. Two categories - Demographic and Financial
3. Demographic:
   a. Mortality rates (during and after employment)
   b. Employee turnover, disability, early retirement rates
   c. Proportion of employees with eligible dependants
   d. Per capita claims by age/type
4. Financial:
   a. Discount rate (see below)
   b. Future salary and benefit levels (see below)
   c. Future medical cost trends
5. Discount rate:
   a. Must reflect market interest rates on high-quality debt instruments
   b. Corporate bonds preferred; government bonds used when corporate bond maturities don't extend far enough)
   c. Objective: match cash flows of the obligation with bond yields of similar timing
6. Salary/benefit projections
   a. Must include all expected future compensation increases (inflation, promotions, productivity, etc.)
   b. Past practice of giving ad hoc increases may need to be reflected
   c. Cost-sharing changes (employee co-pays, deductibles) must be included if there is a substantive pattern

Step 5 – Remeasurement Frequency

1. Full actuarial valuation: at least every 3 years
2. Between valuations, use the roll-forward technique. Take last valuation and adjust for:
   a. Interest (DBO × discount rate)
   b. New service [current service cost × (1+ discount rate)]
   c. Benefits paid out
3. Trigger a new full valuation if a significant event occurs (settlement, curtailment, plan amendment)

Plan Assets

1. Measured at fair value at the balance sheet date
2. Must be held in a legally separate trust; cannot be used by the company for other purposes
3. Asset cap (valuation allowance) rule
    a. If plan assets > DBO (surplus), one can only recognize an asset to the extent one can actually realize it
    b. Expected future benefit = PV of future contribution savings + withdrawable surplus
    c. Any surplus above what's realizable gets offset by a valuation allowance recognized in income

Cost Components for DB Plans (3 components)

1. Current Service Cost
    a. PV of benefits earned by employees for the current year's service
    b. Reduced by employee contributions for the period
2. Finance Cost
    a. Net interest on the defined benefit liability (or credit if it's an asset)
    b. = DBO liability (or asset) at start of period × discount rate
    c. Simple to calculate – no need to track actual return on assets separately here
3. Remeasurements and Other Items
    a. Everything else – the "catch-all" category:
        i. Actual return on plan assets vs. expected (at discount rate) – the difference
        ii. Actuarial gains and losses
        iii. Past service costs (plan amendments)
        iv. Settlement/curtailment gains and losses
        v. Effect of any valuation allowance
    b. Can be calculated as Total Cost – Current Service Cost – Finance Cost

Multiple Plans

1. Each funded plan is measured separately
2. Unfunded plans may be aggregated only if they cover the same employees with different benefits, or different employees with the same benefits

3. A surplus in one plan generally cannot offset a deficit in another unless there is a legal right to do so and the company intends to exercise it

Insurance Contracts

1. If the company buys an insurance contract (e.g., annuities) that unconditionally and irrevocably takes on the obligation
   a. This is a settlement: remove from DBO and plan assets
2. Participating policies (where the insurer pays dividends back) do not fully transfer risk
   a. Not a settlement; treat the participation right as a separate investment

Termination Benefits

1. Two types:
   a. Special termination benefits
   b. Contractual termination benefits
2. Special termination benefits (not in the original plan − one-time offers):
   a. Voluntary: recognize liability when employees accept, and amount is estimable
   b. Involuntary: recognize when management formally approves a plan that specifies: number of employees, job classifications, locations, and the timeline (plan covers ≤ 12 months normally)
3. Contractual termination benefits (required by existing plan terms, e.g., on plant closing):
   a. Recognize when it is probable employees will be entitled, and amount is estimable
   b. Measurement:
      i. For DB pension - difference in DBO with vs. without the special benefits
      ii. May also trigger a curtailment gain/loss

Multiemployer vs. Multiple-Employer Plans

	Multiemployer	**Multiple-Employer**
Who contributes?	2+ unrelated companies (union plans)	2+ companies (often same industry)
segregated?	No, pooled across all employers	Yes, per employer
Accounting	Usually accounted for like a DC plan (not enough info to use DB rules)	Each company follows DB rules, using its proportionate share of assets

Disclosure Requirements

1. Disclose separately for pension plans vs. other benefits:
2. For DB plans:
   a. General plan description
   b. Fair value of plan assets (end of period)
   c. DBO (end of period)
   d. Surplus or deficit (plan assets minus DBO)
   e. Any valuation allowance difference from balance sheet
   f. Remeasurements and other items (if not on face of income statement)
   g. Date of most recent actuarial valuation
   h. Nature of significant plan changes
3. For multiemployer plans:
   a. Plan description
   b. If accounted for as DC: state it's actually a DB plan, why DC treatment is used, any surplus/deficit information
4. For termination benefits: nature and amount (if not on income statement face)

CAPSA GUIDELINE NO. 4: PENSION PLAN GOVERNANCE FREQUENTLY ASKED QUESTIONS

Principle 1: Fiduciary Responsibilities

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

Question 1.1 What is a fiduciary relationship? As a plan administrator, what are my fiduciary responsibilities?

1. Exists when a party (plan administrator) has discretionary power over another party's (member/beneficiary) interests.
2. The fiduciary has an obligation to act in the best interests of the beneficiary.
3. Hallmarks:
   a. Discretionary power of the fiduciary.
   b. Vulnerability of the beneficiary.
4. Fiduciary law imposes a strict standard of conduct to prevent abuse of power.

Primary Fiduciary Responsibilities

1. Duty of Care
   a. Exercise the care a prudent person would use when managing another's property.
   b. More prudent than when managing one's own property.
2. Duty of Loyalty
   a. Act solely in the best interests of plan members and beneficiaries.
   b. Be impartial and even-handed, considering the different interests of members.
   c. Do not personally favour some beneficiaries over others (equal treatment not required).

Summary of Administrator Responsibilities as a Fiduciary

1. Exercise ordinary prudence in managing plan assets.
2. Act in the best interests of all members and beneficiaries.

3. Be impartial and even-handed.
4. Retain experts or agents for tasks beyond the administrator's expertise.
5. Manage conflicts of interest.
6. Consider different members' and beneficiaries' interests.
7. Avoid personal favouritism in decision-making.

Question 1.2: I am both the employer and the plan administrator of my company's pension plan. What are some examples of my responsibilities regarding the pension plan in my role as the employer and in my role as the plan administrator?

1. Legislative Context:
   a. Decisions and actions in both roles must comply with legislative requirements applicable to the pension plan.
2. As the Employer:
   a. Determine the provisions of the pension plan.
   b. Make necessary amendments to plan provisions.
   c. Make contributions to the pension plan.
3. As the Plan Administrator:
   a. Ensure the plan is administered in accordance with plan provisions, legislative requirements, and plan policies (including funding policies).
   b. File plan amendments and prescribed documents with regulatory authorities.
   c. Ensure required contributions are paid timely.
4. Also see Questions 3.2 and 10.1.

Principle 2: Governance Framework

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

Question 2.1 What is a governance framework?

1. A documented structure that:
   a. Clearly identifies areas the plan administrator needs to address to meet fiduciary and other responsibilities.
   b. Demonstrates how the administrator intends to meet those responsibilities.
2. Documenting the Governance Framework:
   a. One approach: Electronic governance binder storing plan-related materials.

b. Suggested folders:

   i. Background

   ii. Plan Documentation

   iii. Governance Reference Material (e.g., CAPSA Guidelines)

   iv. Minutes of Meetings

   v. Contracts with Service Providers

   vi. Communications with Plan Beneficiaries

   vii. Governance Policies and Procedures, including sub-folders for:

   - Fiduciary Responsibility
   - Roles and Responsibilities
   - Performance Monitoring
   - Knowledge and Skills
   - Access to Information
   - Risk Management
   - Oversight and Compliance
   - Transparency and Accountability
   - Code of Conduct and Conflict of Interest
   - Governance Review

c. Under each sub-folder, the plan administrator should adopt and document processes, procedures, policies, and related materials to meet the stated principle.

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.

Question 3.1 Does CAPSA have a sample assessment tool outlining the various responsibilities and accountabilities by role that my organization can use as a starting point?

1. When the same person/entity performs both pension governance and corporate functions:

   a. Clearly recognize, understand, and document different roles.

   b. Document decisions, rationale, and the role under which each decision is made.

2. The administrator remains ultimately responsible and accountable for the plan's management.

3. Sample Roles and Responsibilities Tool Table format for single-employer plans):

Table Columns identify positions, departments, committees, or boards

1. Record keeper
2. Legal Advisor
3. Custodian or Trustee
4. Actuary
5. Investment Advisor/Investment Manager
6. HR Department
7. Finance Department
8. Pension Committee
9. Board of Directors

Table rows (Function reflects both sponsor (non-fiduciary) and administrator (fiduciary) roles.

1. Plan Design
   a. Establishment/termination of plan
   b. Plan amendment (substantive)
   c. Plan amendment (housekeeping/regulatory compliance)
2. Plan Funding
   a. Reconciliation of contributions payable and paid to the plan
   b. Actuarial methods and assumptions
   c. Funding Policy
3. Investment of Pension Assets
   a. Statement of Investment Policy and Procedures (SIPP)/Guidelines
   b. Selection of investment advisor(s)
   c. Selection of investments and DC options
   d. Monitoring investment performance (including review of reports)
4. Administration
   a. Appointment of investment advisor(s), legal counsel, actuary, record keeper/administrator/custodian

   b. Monitoring of investment advisor(s), legal counsel, actuary, record keeper/administrator/custodian
   c. Communications strategy and content
   d. Plan documentation and service provider agreements
   e. Monitoring case law/legislative compliance
   f. Interpretation of plan provisions
   g. Fiduciary education and insurance
   h. Treatment of unusual cases
   i. Member inquiries, dispute resolution, appeals, enrolment, benefit payments, payroll deductions
   j. Other filings (e.g., Annual Information Return)
   k. Audited pension plan financial statements

5. Governance
   a. Governance structure review
   b. Compliance with CAPSA Guidelines
   c. Governance report to Board

In each table cell, mark whether the position, department, committees and board is Responsible (R), Accountable (A), Consulted (C), Informed (I) for each function.

Question 3.2 What are the "typical" roles and responsibilities that plan administrators should anticipate being accountable for?

Defined Benefit

1. General Governance Roles
   a. Obtain appropriate training and ongoing education for fiduciary and other responsibilities.
   b. Establish, implement, and maintain the governance framework for plan administration.
   c. Identify skills and knowledge required for delegates and staff.
   d. Establish criteria for selection and performance measures of delegates and staff.
   e. Allocate roles and responsibilities among participants in plan administration.
   f. Select, appoint, and monitor service providers.
   g. Establish a reporting process to the plan administrator/Board on plan administration and investment.

   h. Ensure plan text and administration comply with legislation.
   i. Refer to CAPSA and regulatory guidelines.

2. Investment Oversight
   a. Establish and regularly review (at least annually) the investment policy.
   b. Ensure the policy is shared with interested parties (e.g., plan actuary).
   c. Select and retain investment managers, monitor performance, and oversee changes when appropriate.
3. Day-to-Day Administration
   a. File required documents/forms with regulatory authorities
   b. Ensure timely contributions to the pension plan.
   c. Calculate member benefits accurately and on time.
   d. Ensure administrative timeframes comply with pension legislation.
   e. Respond to member and beneficiary inquiries.
4. Provision of Services or Advice
   a. Ensure periodic actuarial valuations are completed.
   b. Draft plan amendments and prepare regulatory filings.
   c. Hold and invest plan assets.
   d. Maintain plan records.
   e. Pay members' benefits accurately and timely.
   f. Provide annual statements to members.
   g. Provide information for Annual Information Return.

Defined Contribution

1. High-level duties (Plan Administration):
   a. Obtain training and ongoing education.
   b. Establish, implement, and maintain governance framework.
   c. Identify required skills/knowledge for delegates and staff.
   d. Set criteria for selection and performance measures of delegates/staff.
   e. Allocate roles and responsibilities among participants.
   f. Select, appoint, and monitor service providers.
   g. Establish reporting process to Board/plan administrator.

   h. Ensure compliance with plan text and legislation.
   i. Refer to CAPSA and regulatory guidelines.

2. Overseer of plan investment
   a. Establish and annually review/update investment policy.
   b. Provide policy to relevant parties (e.g., investment advisor).
   c. Select and monitor investment options.
   d. Recommend/oversee changes in investment options.
3. Day-to-day administration:
   a. File required documents/forms with regulators.
   b. Ensure contributions (employer & member) are calculated and deposited on time.
   c. Adhere to legislative administrative timeframes.
   d. Respond to member and beneficiary inquiries.
4. Service providers/advisors (support functions):
   a. Receive contributions.
   b. Draft plan amendments and prepare regulatory filings.
   c. Hold/invest plan assets.
   d. Maintain plan records.
   e. Pay member benefits accurately and timely.
   f. Provide annual member statements.
   g. Provide information for Annual Information Return.
   h. Provide investment info/tools for member decision-making.

Multi-Employer Pension Plan

1. High-level duties (Plan Administration)
   a. Obtain training/ongoing education for the Board of Trustees.
   b. Establish and maintain governance framework.
   c. Provide trustees with current key documents (plan texts, trust agreements, actuarial reports).
   d. Identify required skills/knowledge for delegates and staff.
   e. Set criteria for selection and performance of delegates/staff.
   f. Select/appoint delegates, third-party service providers, and staff.

   g. Establish reporting process to Board on plan administration and investment performance.
   h. Review performance of delegates, staff, and service providers.
   i. Monitor plan funding.
   j. Address delinquent employer contributions.
   k. Ensure compliance with legislation.
   l. Refer to CAPSA/regulatory guidelines.

2. Overseer of plan investment
   a. Establish and annually review/update investment policy (provided to relevant parties, e.g., actuary).
   b. Select/retain investment managers; select options (for DC MEPPs).
   c. Monitor investment manager performance; recommend/oversee changes.
   d. Ensure investments comply with policy and legal requirements.

3. Day-to-day administration
   a. File required documents/forms with regulators.
   b. Monitor employer contributions; follow delinquency control process if late.
   c. Calculate member benefits accurately and timely.
   d. Provide monthly and lump-sum pension payments.
   e. Adhere to legislative administrative timeframes.
   f. Respond to inquiries from members, beneficiaries, stakeholders.

4. Service providers/advisors (support functions):
   a. For DB MEPPs: perform actuarial valuations and report to trustees.
   b. Draft plan amendments and prepare regulatory filings.
   c. Hold plan assets.
   d. Maintain plan records.
   e. Pay benefits accurately and timely.
   f. Provide required annual member statements.
   g. Supply info for Annual Information Return.
   h. For DC MEPPs: provide investment information/tools to members.

Question 3.3 Would the participants in the governance process and their roles and responsibilities also vary depending on the legislative requirements applicable to the plan?

Yes. If the pension legislation requires that the administrator must be a pension committee, the pension committee is legally responsible for performing all of the functions related to plan administration.

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.

Question 4.1 How might the performance of participants in the governance and administration process be measured?

1. Pension Committee/Board of Trustees
   a. Monitor internal & external service providers against standards; take corrective action.
   b. Conduct self-assessments; determine if independent review needed.
   c. Maintain and fulfill terms of reference (duties clearly outlined).
   d. Apply plan rules fairly and consistently.
   e. Ensure compliance with legislative requirements.
   f. Verify contributions are paid on time.
2. Investment Managers
   a. Follow the plan's investment policy.
   b. Comply with the investment mandate.
   c. Monitor performance against benchmarks; take corrective action as needed.
3. Benefits Administrator/Record Keeper
   a. Monitor external service providers and contractual service standards.
   b. Maintain accurate records.
   c. Pay member benefits accurately and on time.
   d. Ensure compliance with regulatory requirements for record-keeping and benefits administration.

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.

Question 5.1 What steps need to be taken to develop an appropriate level of knowledge and skill?

1. Orientation & Ongoing Education
   a. Essential for new individuals in governance/administration.
   b. Ongoing education required for all involved parties.
   c. Training can be internal or provided by external experts.
   d. Key training topics:
      i. Fiduciary duties
      ii. Investment management
      iii. Funding & actuarial concepts
      iv. General finance
      v. Governance practices
      vi. Pension legislation
2. Documentation to provide for training
   a. Plan texts
   b. Trust or insurance agreements
   c. Actuarial valuation reports (DB plans)
   d. Statement of investment policies & procedures (SIP&P)
   e. Governance guidelines
   f. Audited financial statements
3. External advice (as needed) may come from:
   a. Auditors
   b. Custodians
   c. Investment managers
   d. Lawyers
   e. Actuaries
   f. Pension & benefits consultants
   g. Record keepers

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.

Question 6.1 As a plan administrator, what kind of information should I obtain to ensure that I am meeting my fiduciary and other responsibilities?

1. Possible Information Required (varies by plan type & size)
    a. Legislative/regulatory changes & CAPSA guidelines.
    b. Pension plan design details.
    c. Membership data & demographic changes.
    d. Actuarial valuations.
    e. Audit reports.
    f. Contribution information (employer & member).
    g. Compliance reports.
    h. Investment performance reports.
    i. Reports from delegates (e.g., service standards, proxy voting).
    j. Member communications.
    k. Membership statistics (e.g., missing beneficiary designations, use of default fund).
    l. Escalated member inquiries.
    m. Developments in good governance practices.
2. Administrator responsibility
    a. Establish a process to obtain information on a timely basis.
    b. Review information for accuracy & completeness.

Question 6.2 As the plan administrator, how should I ensure that delegates have the information needed to carry out their responsibilities?

1. Information Sharing Process
    a. Establish a process for providing information to delegates.
    b. Identify:
        i. What information needs to be shared.
        ii. Who it should be shared with.
        iii. Who is responsible for sharing it?
    c. Example:
        i. Distribute the Statement of Investment Policies & Procedures (SIP&P) and amendments.
        ii. Ensure delivery to the actuary and all delegates managing plan investments.

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.

Question 7.1 What types of risks does a pension plan typically face?

1. Funding Risks
    a. Interest rate/discount rate risk
    b. Asset-liability mismatch risk
    c. Longevity risk (members living longer than expected)
    d. Turnover/retirement risk
    e. Contribution volatility & delinquency risk
2. Investment Risks
    a. Interest rate/duration risk
    b. Equity market risk
    c. Inflation risk
    d. Foreign exchange risk
    e. Liquidity risk
    f. Credit/counterparty risk
    g. ESG risks
3. Operational Risks
    a. Benefit processing & payment errors
    b. Inaccurate data risk
    c. Errors in member statements
    d. Systems failure/business continuity risk
    e. Legal & regulatory compliance risk
    f. Agency & outsourcing risk

Question 7.2 How might a DB plan's risk management framework differ from that of a DC pension plan?

1. Risk Management Framework (applies to all plan types):
    a. Identify and analyze risks.
    b. Prioritize risks.

   c. Develop documentation and processes.
   d. Monitor and manage risks continuously.

2. Key Differences
   a. DB plans
      i. Investment risk managed by a plan administrator.
      ii. Administrator is also responsible for funding policy and funding risk.
   b. DC plans
      i. Plan administrator: selects and monitors investment options.
      ii. Plan member: responsible for choosing their own investment portfolio from available options → bears investment risk.
3. Relevant CAPSA Guidance
   a. DC Plans: Guideline No. 3: Capital Accumulation Plans, Guideline No. 8: Defined Contribution Plans
   b. DB Plans: Guideline No. 7: Pension Plan Funding Policy
   c. Both DB & DC Plans: Guideline No. 6: Prudent Investment Practices

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.

Question 8.1 Where can I find information on pension standards legislation applicable to my plan?

1. Legislation & Regulations
   a. Available on provincial and federal regulators' websites.
   b. Guidance notes and related documents may also be accessible online.
   c. Plan administrators must know which jurisdiction(s) apply to their pension plan.
   d. Professional guidance: recommended for interpreting and complying with legislation and regulations
2. CAPSA Guidelines:
   a. Provide guidance on regulatory expectations and industry practices.
   b. Useful for plan administrators to supplement provincial/federal legislation and professional advice.

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.

Question 9.1 What are some methods of communicating with plan members and beneficiaries?

1. Communication Process Considerations
   a. Ensure communication is accurate, clear, and in plain language.
   b. Methods depend on:
      i. Plan resources
      ii. Legal requirements
      iii. Privacy considerations
      iv. Member locations (single vs. multiple)
      v. Languages spoken
      vi. Accessibility needs of retirees and beneficiaries
2. Communication Methods: Hard copy, Electronic, In Person (One-on-One, Group Sessions), Telephone
3. References for Guidance
   a. Applicable legislation
   b. CAPSA Guideline No. 2: Electronic Communication in the Pension Industry

Question 9.2 What are components of a process for addressing plan member and beneficiary questions or requests?

1. Regulatory Context:
   a. Requirements/recommendations may be set out in legislation or pension regulator policies.
2. Processes for Addressing Inquiries:
   a. Inform members whom to contact for questions/requests.
   b. Provide guidance for members with special needs (e.g., translator access).
   c. Identify supporting information required for the inquiry/request.
   d. Document the inquiry.
   e. Establish timelines for responses (based on complexity of inquiry).
   f. Document the response.
   g. If inquiry management is delegated, the administrator must receive reports.

h. Have an escalation process for unresolved questions.

i. Advise members of options if they disagree with a decision, including:

    i. Appeal process (if permitted).

    ii. Timelines for managing appeals.

Question 9.3 What are examples of important decisions of the plan administrator that should be communicated?

1. Mandatory Communications (by legislation):

    a. Certain decisions (e.g., changes to the pension plan) must be communicated to plan members.

2. Optional but Recommended Communications (to improve transparency & understanding):

    a. Changes in the governance framework.

    b. Changes in investment management practices.

    c. Changes in delegates or service providers.

    d. Changes in services provided to plan members/beneficiaries

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.

Question 10.1 If the employer is both the plan sponsor and plan administrator, what are some of the issues it should be aware of?

1. Employer as administrator:

    a. Must recognize and separate duties as employer vs. plan administrator.

    b. Conflicts of interest can arise when the employer is both sponsor and administrator.

    c. Proper management of conflicts is essential to avoid breaching fiduciary duty.

2. Conflict of Interest Policy should establish procedures to disclose, address and document conflicts.

3. Training: All governance and administration participants should receive training on Code of Conduct. Conflict of interest policy.

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.

Question 11.1 What would be included in a governance review?

1. Should be carried out regularly (based on a pre-set review cycle).
2. Conducted at a high level, but must include review of governing documents:
    a. Plan text
    b. By-laws
    c. Trust agreement
    d. Policies, etc.
3. Identify governance shortfalls and propose modifications to improve governance.
4. Include review of new legislation and other developments impacting the plan.
5. Independent professional advice may be sought.

CAPSA GUIDELINE NO.6: PENSION PLAN PRUDENT INVESTMENT PRACTICES GUIDELINE

Prudent Investment Practices

1. Each jurisdiction's legislation sets out
   a. the roles of administrator and the statutory standard of care, and sponsor
   b. prudent investments, requirements, specific investment limits and restrictions.
2. Prudence is assessed by the development, adoption, implementation of investment strategies and specific investments for plan needs (i.e., accounting for nature of liabilities, timing of payouts, expected experience, and plan demographics)

Role of the Plan Administrator

1. Responsible for the overall administration:
   a. Manage the fund,
   b. Establish a written Statement of Investment Policies and Procedures (SIP&P), or a Statement of Investment Policy and Goals (SIP&G)
   c. Invest according to the above policies, other plan documents and applicable legislation
2. Held to a fiduciary standard of care
   a. Ensure assets are invested prudently
   b. Establish, implement and adhere to policies and procedures that support its responsibilities.

Role of the Plan Sponsor

1. Determine plan design, benefit structure, level and nature of benefits, and establish, amend and terminate the plan
2. Not held to a fiduciary standard of care
3. Good to have a funding policy

Dual Role of the Employer AS Plan and Administrator Plan Sponsor

1. Must clearly know when it is acting as administrator and when as sponsor.

Communication between Plan Administrator and Plan Sponsor

1. If administrator is not the same as the sponsor
   a. Communicate on respective risk tolerances, volatility concerns and return expectations, changes or conflicts in investment/funding policy
   b. Both sides must be current with relevant developments
   c. Seek advice if uncertain about respective roles and responsibilities.

Communication With Plan Beneficiaries

1. Communicate prescribed information to beneficiaries in specific circumstances
   a. Especially when beneficiaries need to make investment decisions
      i. Provide sufficient details about investment options for informed decision-making
   b. Beneficiaries need to understand benefits and risks, and have adequate funding assurance

Prudent Investment Practices Guideline

1. Administrator has a duty to invest prudently accounting for plan needs
2. Principles of prudence: returns + contributions can cover the liabilities
   a. Have a robust, process-oriented decision-making framework
   b. Consider relevant guidelines and legal requirements for their specific plans

Prudent Investment Principles

Prudent Person Rule

1. Focus on behaviours and processes, not just outcomes
   a. Good governance structure, deliberate decision making, good documentation and record keeping.

   b. Permit administrator, regulator, beneficiaries and others who may have an interest to monitor and assess investment management practices

2. Objective standard of conduct which references the actions of a prudent person.

   a. For registered plans - account for legislation that calls for a higher, more subjective standard.

Prudent Delegation Investment

1. Only those who have authority, expertise, information and resources can make decisions

   a. Delegate if administrator does not have the capacity

   b. In the plan governance documents: authority to delegate, delegate must report back, and administrator to monitor the delegate.

   c. In the delegation document, terms of delegation (e.g., what are the delegated functions, delegate's obligation to report back, any authority to sub-delegate

2. Administrators must monitor and review the delegated activities based on established policies and performance procedures

Investment Objectives

1. Must be well defined - risks associated with objectives, consistent with plan's risk tolerances, and steps to actively manage the risks

2. Consistent with plan's objective, liabilities, demographics and return volatility tolerance

3. Consider relevant legal provisions and investment principles (e.g., asset allocation, diversification and liquidity)

Risk Tolerances

1. Primary risk - cannot pay pension

2. Consider investment and funding objectives when setting investment policy

3. Evaluate fund performance and effectiveness of investment policy.

4. Identify the risks, e.g., investment risk, interest rate risk, foreign exchange rate risk, credit risk, liquidity risk, market risk, funding risk, demographic risk, longevity risk and legislative/regulatory risk.

Investment Policy/Statement of Investment Policies & Procedures (SIP&P)

1. Reflects investment objectives, set out

   a. Investment principles, strategic asset allocation, performance objectives and risk tolerances
   b. Regular monitoring processes and review of the objectives and tolerances,
   c. Delegatee for administration and investment, and the established processes
   d. Process for asset managers selection and management, performance monitoring and review, asset allocation changes.
2. Legally required to have a written SIP&P. Include key elements identified by the applicable legislation.
3. Plans may also have a broader investment policy to guide investment decision making
   a. How to comply with investment principles that:
      i. Identify the kinds of investments that could be held;
      ii. Indicate the allocation between different kinds of investments;
      iii. Address the nature and extent of risk that is anticipated in the investment portfolio; and
      iv. Identify expected return on investments

Pension Plan Prudent Investment Practices Guideline

1. Asset Allocation
   a. Reflect characteristics of liabilities, demographics and risk tolerances
   b. Consider a full range of investment opportunities
   c. For each asset class, consider appropriateness of active or passive management
      i. Active management - consider expertise required and possible delegation
2. Investment Selection and Due Diligence - independent and thorough investigation to determine the investment suitability
3. Monitoring statutory and policy compliance needs
   a. Sufficient information and an effective reporting and disclosure regime
   b. Mechanisms to monitor an activity, transaction or investment
   c. Administrator should
   d. Review investment objectives and risk tolerances; ensure adequate investment procedures
   e. Review key investment decisions and performance; ensure service providers are monitored, measured, and evaluated

4. Documenting Processes, Policies and Procedures

   a. Help demonstrate that the Prudent Person Rule is applied and administrator obligations are fulfilled.

   b. Any key decision should be well documented: include what reasons and circumstances were considered.

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QUESTION 19 OF 704 | Question # | Go! | Prev | Next

Question — Difficulty: Advanced

An airport purchases an insurance policy to offset costs associated with excessive amounts of snowfall. The insurer pays the airport 300 for every full ten inches of snow in excess of 40 inches, up to a policy maximum of 700.

The following table shows the probability function for the random variable X of annual (winter season) snowfall, in inches, at the airport.

Inches	[0,20)	[20,30)	[30,40)	[40,50)	[50,60)	[60,70)	[70,80)	[80,90)	[90,inf)
Probability	0.06	0.18	0.26	0.22	0.14	0.06	0.04	0.04	0.00

Calculate the standard deviation of the amount paid under the policy.

Possible Answers

A 134 | ✓ 235 | X 271 | D 313 | E 352

Help Me Start

Find the probabilities for the four possible payment amounts: 0, 300, 600, and 700.

Solution

With the amount of snowfall as X and the amount paid under the policy as Y, we have

y	$f_Y(y) = P(Y = y)$
0	$P(Y=0) = P(0 \le X < 50) = 0.72$
300	$P(Y=300) = P(50 \le X < 60) = 0.14$
600	$P(Y=600) = P(60 \le X < 70) = 0.06$
700	$P(Y=700) = P(Y \ge 70) = 0.08$

The standard deviation of Y is $\sqrt{E(Y^2) - [E(Y)]^2}$.

$$E(Y) = 0.14 \times 300 + 0.06 \times 600 + 0.08 \times 700 = 134$$

$$E(Y^2) = 0.14 \times 300^2 + 0.06 \times 600^2 + 0.08 \times 700^2 = 73400$$

$$\sqrt{E(Y^2) - [E(Y)]^2} = \sqrt{73400 - 134^2} = 235.465$$

Common Questions & Errors

Students shouldn't overthink the problem with fractional payments of 300. Also, account for probabilities in which payment cap of 700 is reached.

In these problems, we must distinguish between the REALT RV (how much snow falls) and the PAYMENT RV (when does the insurer pay)?. The problem states "The insurer pays the airport 300 for every full ten inches of snow in excess of 40 inches, up to a policy maximum of 700 ." So the insurer will not start paying UNTIL AFTER 10 full inches in excess of 40 inches of snow is reached (say at 50+ or 51). In other words, the insurer will pay nothing if X<50.

Rate this problem: Excellent | Needs Improvement | Inadequate

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