



Defined Benefit Multi-Employer Pension Plans

Leading Practices Benchmarking Summary Report

August 2024

25 Sheppard Avenue West
Suite 100
Toronto ON
M2N 6S6
Telephone: 416-250-7250
Toll free: 1-800-668-0128

25, avenue Sheppard Ouest
Bureau 100
Toronto (Ontario)
M2N 6S6
Téléphone : 416-250-7250
Sans frais : 1 800 668-0128

Introduction

Defined Benefit Multi-Employer Pension Plans (DB MEPPs¹) are an important part of Ontario's retirement income system. More than one million Ontarians participate in DB MEPPs. DB MEPPs cover a range of industries, trade unions, non-profit groups, and associations. The pension benefits paid from these plans are an important component of retirement income and contribute to security and peace of mind for the beneficiaries, their families and communities across Ontario.

A DB MEPP is a plan to which two or more employers contribute. In addition, three main characteristics typically distinguish a DB MEPP from a single employer pension plan:

- **Boards of Trustees.** DB MEPPs are administered by Boards of Trustees. Appointees from participating trade unions and employers comprise most boards.
- **Fixed contributions.** In a DB MEPP, participating trade unions, employers or industry associations set contribution rates that are fixed under collective bargaining or other agreements.
- **Accrued benefits can be adjusted.** The Pension Benefits Act (PBA)² permits DB MEPP Boards of Trustees to adjust, upward or downward, benefits for future service and past service. As a result, retirees could see their pensions in pay, and active members could see their accrued benefits, adjusted. This is also a characteristic of what are defined as target benefit pension plans in other jurisdictions. The government is developing a framework for target benefit pension plans in Ontario, and it is anticipated that most DB MEPPs intend to convert to target benefit pension plans once the framework is in place.

Members of a DB MEPP Board of Trustees are ultimately responsible for the oversight of their pension plan. Boards of Trustees and their advisors must be familiar with and comply

¹ While some jointly sponsored pension plans (JSPPs) involve multiple employers, the legislative framework, governance structure and administration of JSPPs is different from that of DB MEPPs. This report is focused strictly on DB MEPPs.

² Section 14(2) of the [PBA](#).

with all applicable fiduciary duties, legal and regulatory requirements. DB MEPPs must be administered, and their assets invested, with the care, diligence and skill required of a person of ordinary prudence dealing with the property of another person in accordance with the standard of care prescribed by the PBA³ and by case law. Despite delegation of key tasks, decision making always rests with the Trustees. A reasonable knowledge base and ability to challenge expert advice is therefore essential for Trustees if they are to discharge their fiduciary duties appropriately.

Our approach to benchmarking

In 2020, and with the support of a representative group of DB MEPP stakeholders in Ontario⁴, FSRA embarked on a multi-year review of the DB MEPP sector. The outcomes of this review are aligned with the Ontario Ministry of Finance proposal for a permanent framework for target benefit pension plans⁵ and FSRA's objectives⁶:

- To promote good administration of pension plans.
- To protect and safeguard the pension benefits and rights of pension plan beneficiaries.

The first activity conducted by FSRA with plan administrators in 2020 was a thematic review of a representative sample group of twenty-one Ontario-registered DB MEPPs. When selecting the sample group, consideration was given to such factors as the industry the plan serves, asset base, membership base, third-party administration/in-house administration, and actuarial service providers.

The information gathered from that thematic review led to the publication of DB MEPP Leading Practices Information Guidance in 2021⁷. That guidance encourages DB MEPP

³ Section 22(1) and 22(2) [PBA](#).

⁴ Refer to the [FSRA Standing Technical Advisory Committee for Multi-Employer, Defined Benefit/Target Benefit Pension Plans](#)

⁵ Refer to [A Permanent Framework for Target Benefits: Revised Proposals, August 2023](#)

⁶ Refer to the [Pension Sector Guiding Principles](#)

⁷ Refer to [Defined Benefit Multi-Employer Pension Plans – Leading Practices](#)

Trustees and their advisors to consider their governance, risk management and communication practices, and to compare them to the eight identified leading practices.

Between 2022-2024, FSRA collaborated with DB MEPP Trustees and their advisors on a benchmarking initiative, covering Ontario registered MEPPs, in which Trustees identified to what extent they were demonstrating each of the eight Leading Practices⁸.

In this summary report, we do not seek to analyse the detailed content of governance, risk management, and communications related documents or the extent to which Trustees follow and apply such documents. It should be noted that having governance, risk management, and communication structures does not in and of itself lead to good governance, risk management, and communication without active implementation and regular review of that structure.

This summary report of the benchmarking exercise is intended to allow Trustees to understand how their respective pension plan compares to the peer group. It is not intended to offer guidance in plan governance, risk management or communications practices. Pending decisions on proclamation of PBA provisions relating to target benefit pension plans and the supporting regulations, FSRA will then work towards publishing a Supervisory Approach for MEPPs.

Key findings

- We note that there seems to be general acceptance of the eight Leading Practices framework across the sector.
- The extent to which each of these practices have been implemented does vary with a notable need to continue to develop effective risk management frameworks.
- We acknowledge some plans have put development of their governance, risk management, and communication structures, aligned with the eight Leading Practices, on hold pending consultation and finalization of a permanent framework

⁸ Results in this report reflect responses from the Trustees of 67 DB MEPPs in Ontario.

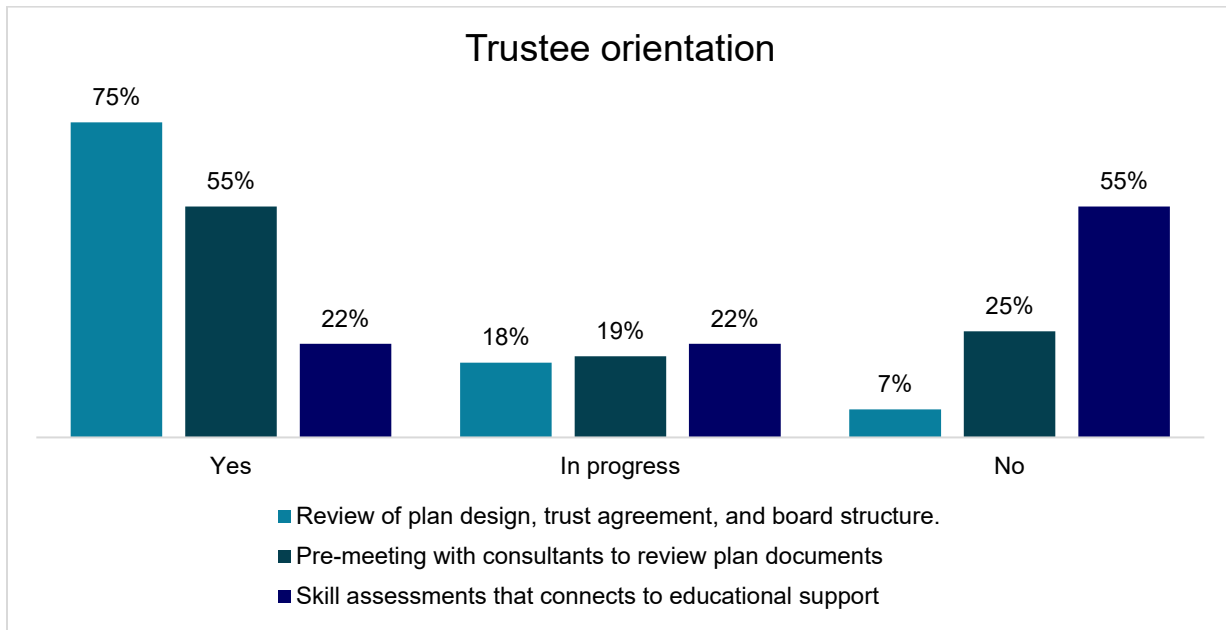
for target benefit pension plans. However, Trustees continue to be responsible for effective governance, risk management, and communication structures and action throughout this period.

- We also acknowledge areas where sections of the eight Leading Practices have been identified by Boards of Trustees as impractical for their plans. Nonetheless, for those plans, it may be the case that a lack of control in one area should result in tighter controls or more expansive actions in other areas to compensate.

Leading practice 1: a comprehensive orientation policy to on-board new trustees.

Our goal here was to establish the extent to which plans have a structure in place to get new Trustees up to speed and able to fully discharge their duties. We note there is no single way to do that and observed evidence of several different approaches with some overlap. We would expect those Boards whose Trust Agreement does not permit input to the appointment of Trustees to have a greater focus on the orientation and knowledge continuity processes. The results were as follows:

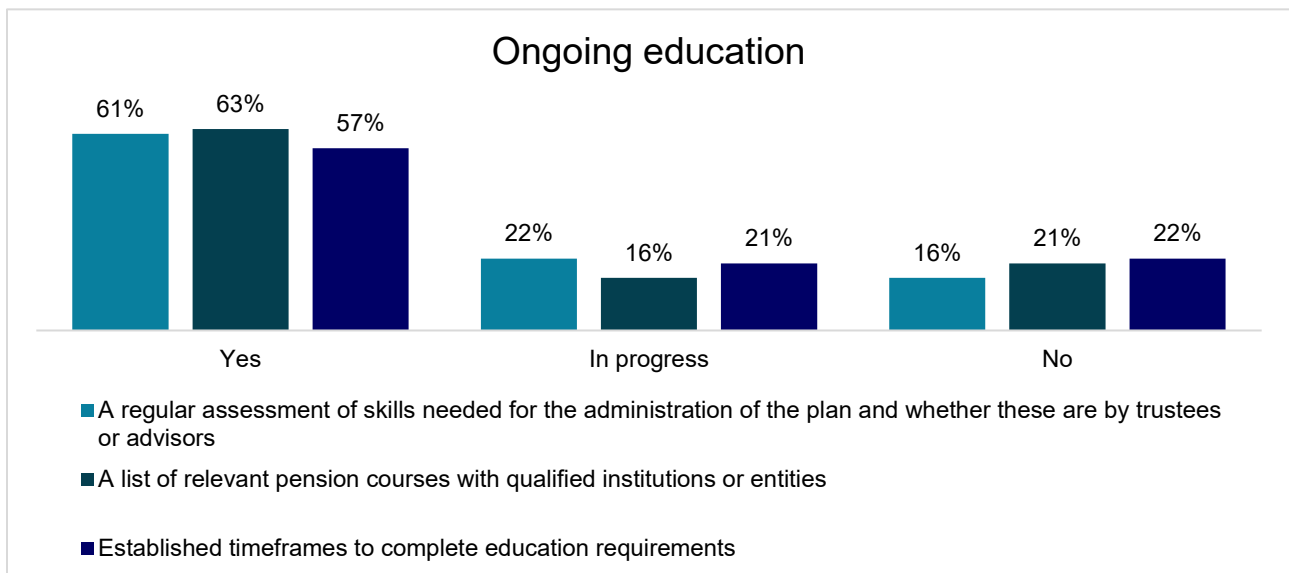
- Around 75% of all MEPPs in Ontario have established some form of basic orientation for a new Trustee, providing a review of plan design, the trust agreement, and organizational and board structure.
- Just over 50% of all DB MEPPs also require new trustee orientation meetings with plan consultants and advisors, ideally as soon as a new Trustee is announced and in advance of the next scheduled Board meeting.
- A little more than 20% of plans have an orientation program in place that consists of the activities previously mentioned plus an assessment of a Trustee's knowledge level at the time of onboarding (as distinct from ongoing assessment throughout the Trustee's tenure addressed in Leading Practice 2).



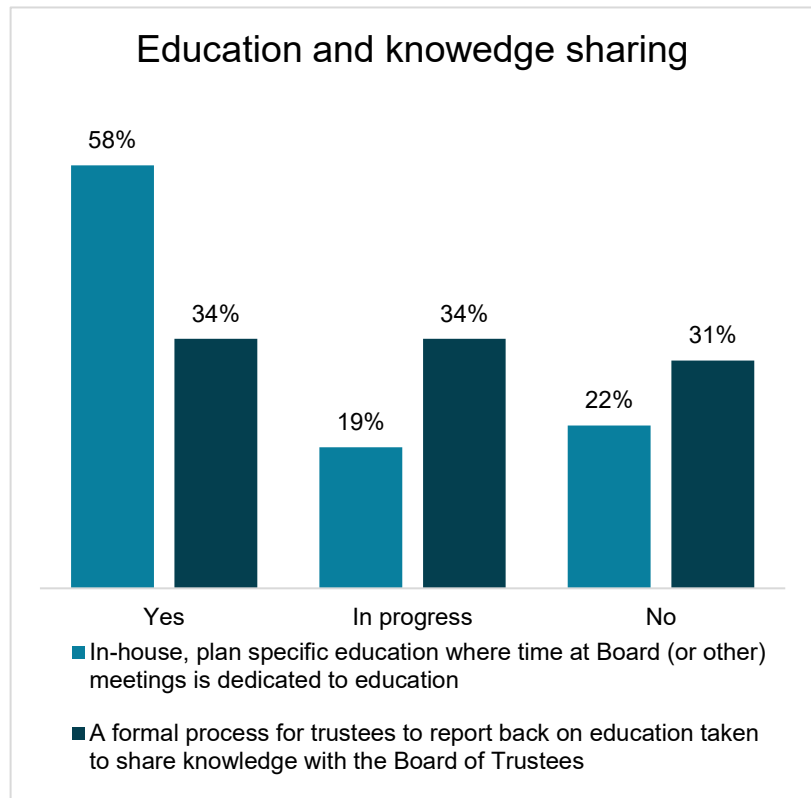
Leading practice 2: trustee education policies to support trustees in fulfilling their role as plan fiduciaries.

Our goal here was to establish the extent to which plans have a structure to ensure Trustees receive appropriate training and stay up to date on all relevant topics. Key components of assessing training needs, delivering effective training, and doing so on a timely basis are reflected in the following chart.

We note the following:



- As with Leading Practice 1, we would expect the extent to which a Board participates in the Trustee appointment process to impact their approach to training.
- Boards are working towards enhancing internal opportunities for education and knowledge sharing.
- The extent to which education policies are documented varies.



Some education policies are well documented in a stand-alone policy, some are embedded in governance policies, some are combined with an orientation policy and others are quite informal.

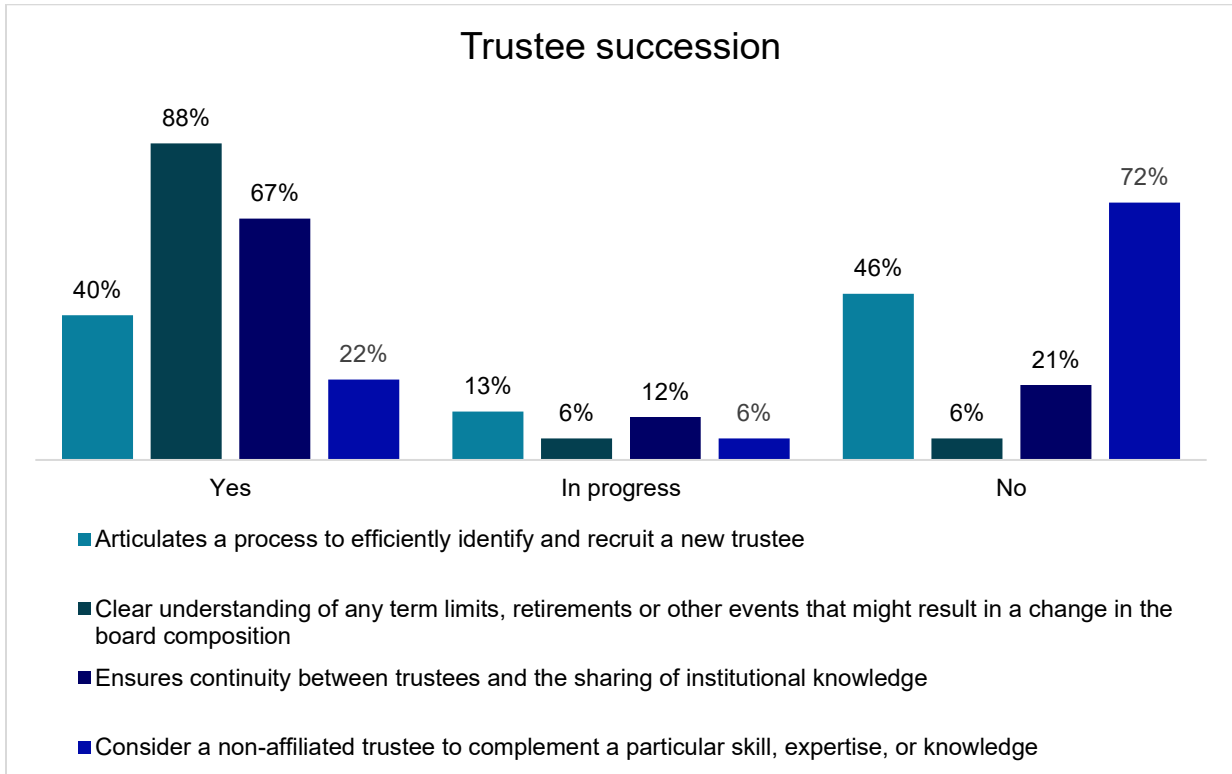
- Most education policies tend to also include the recommended/approved provider of education, the process for approval and expense/budget parameters and conditions.

Leading practice 3: a trustee succession plan to ensure continuity on the board of trustees and good plan administration.

Our goal here was to establish the extent to which plans have a succession plan and the chart below shows our findings. We note the following:

- We acknowledge that, for many plans, the Trust Agreement does not give the Board any control over trustee appointments.

- That said, such plans who have focused on Trustee succession have acknowledged that they can provide those responsible for appointing new Trustees with certain criteria for consideration when reviewing potential candidates for a new trusteeship or inviting candidates for election.
- Again, we would expect to see a link between the level of control over appointments and the existence of knowledge continuity structures.
- We regard the many document storage platforms available to Boards of Trustees as a significant development in helping ensure onboarding and knowledge continuity.

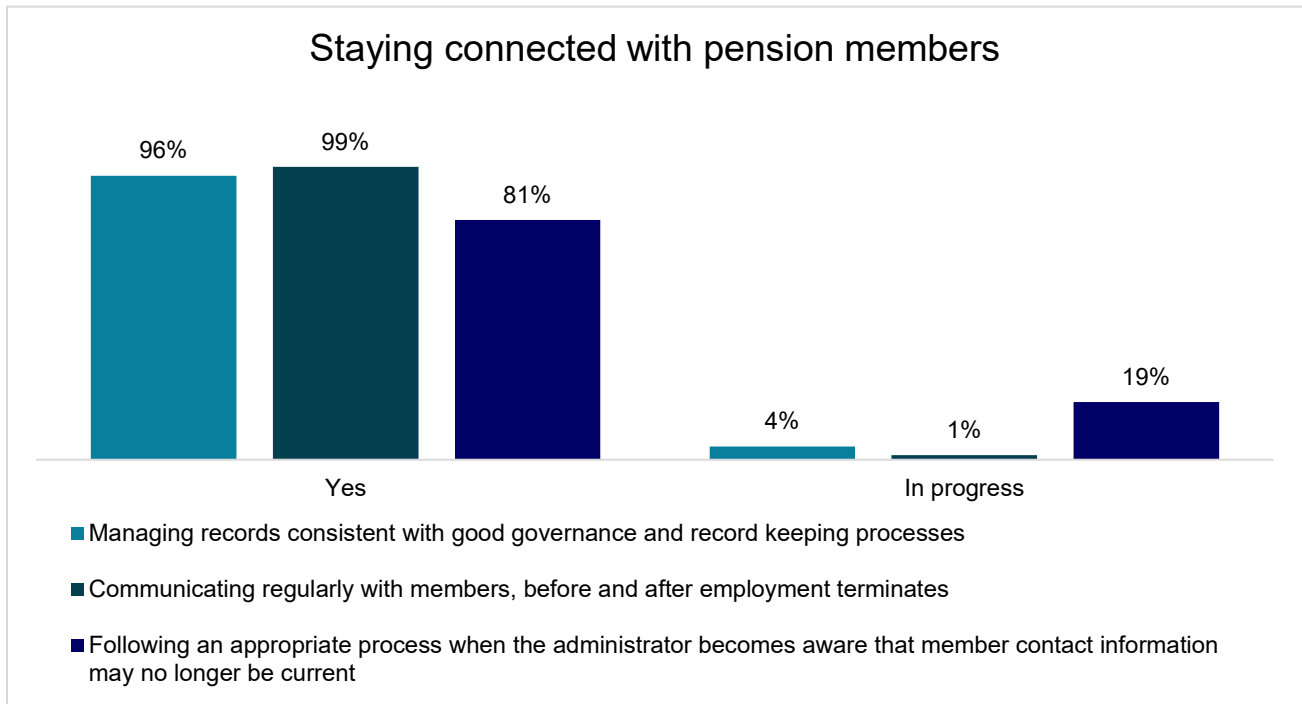


Leading practice 4: plan enrolment policies and procedures that support members remaining connected with their pensions.

Our goal here was to establish the extent to which plans have a process for staying in contact with their membership. We note the following:

- Almost all plans indicate that they manage and maintain quality member records as well as maintain regular communications with members, regardless of employment status.
- We acknowledge that in some MEPPs there is a lack of enrollment information provided to the administrator and that, combined with what is often short-term employment, can cause record-keeping issues. We also acknowledge that members also play an integral role in ensuring they update pertinent information on a timely basis.
- Plan administrators have an obligation to maintain accurate member records to meet their standard of care and so must take all reasonable steps to do so.

The gain/loss section of an actuarial valuation report could be used to assess and quantify the effectiveness of a plans process for managing data. Consideration of the table below, in conjunction with the large number of missing or un-locatable members in the MEPP sector, suggests there may be more work to do here and there may be room for improvement in terms of formalizing a cost-effective process to search for missing or un-locatable members. Plans should, if they have not already done so, consider creating a policy utilizing both FSRA and Canadian Association of Pension Supervisory Authorities (CAPSA) guidance on missing or un-locatable members.

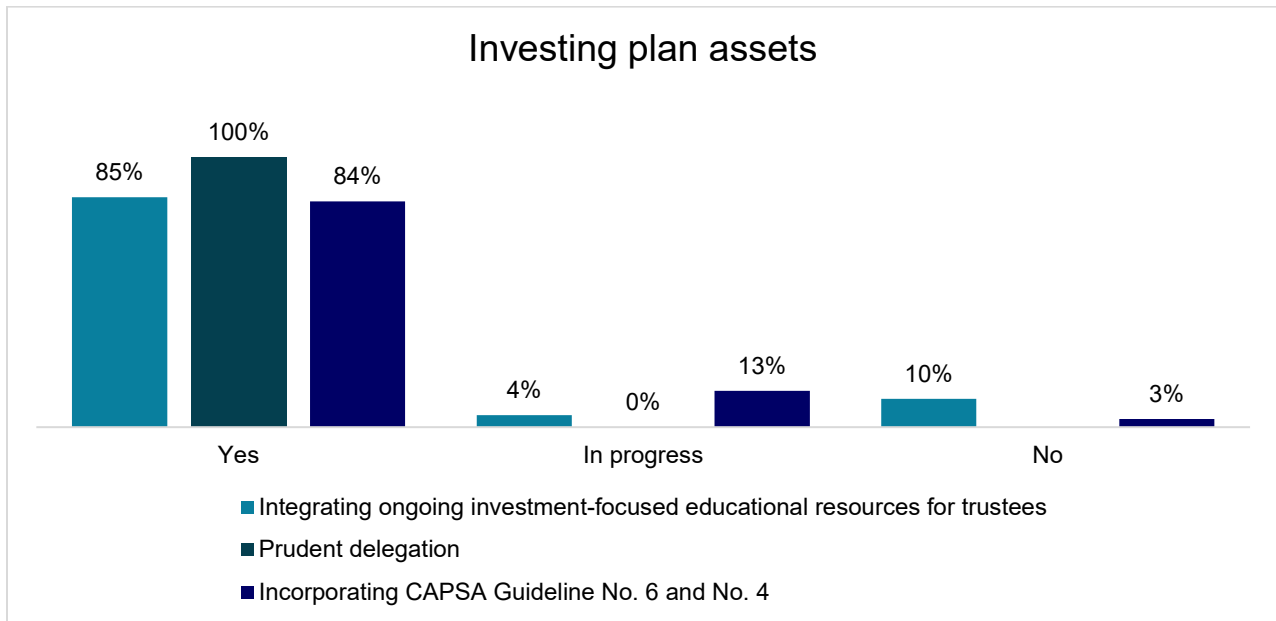


Leading practice 5: an investment policy that considers industry leading practices relevant to how the plan assets will be invested and how trustees will resolve conflicts of interest, should they arise.

Our goal here was to confirm that Trustees are aware of their need to understand the following:

- The need for investment specific education that reflects the complexities of administering plan assets.
- The distinction between delegating to an investment consultant and retaining the sole decision-making power on all investment matters given that Trustees maintain ultimate responsibility for making investment decisions in accordance with the standard of conduct required of a prudent person.
- The role that CAPSA guidelines play in supporting Trustees in this area.

The results are set out in the chart below.



Most plans have delegated asset management activities as well as established a process to ensure that any investment-related conflicts of interest are managed appropriately. All plans state that such delegation is done with the appropriate prudence.

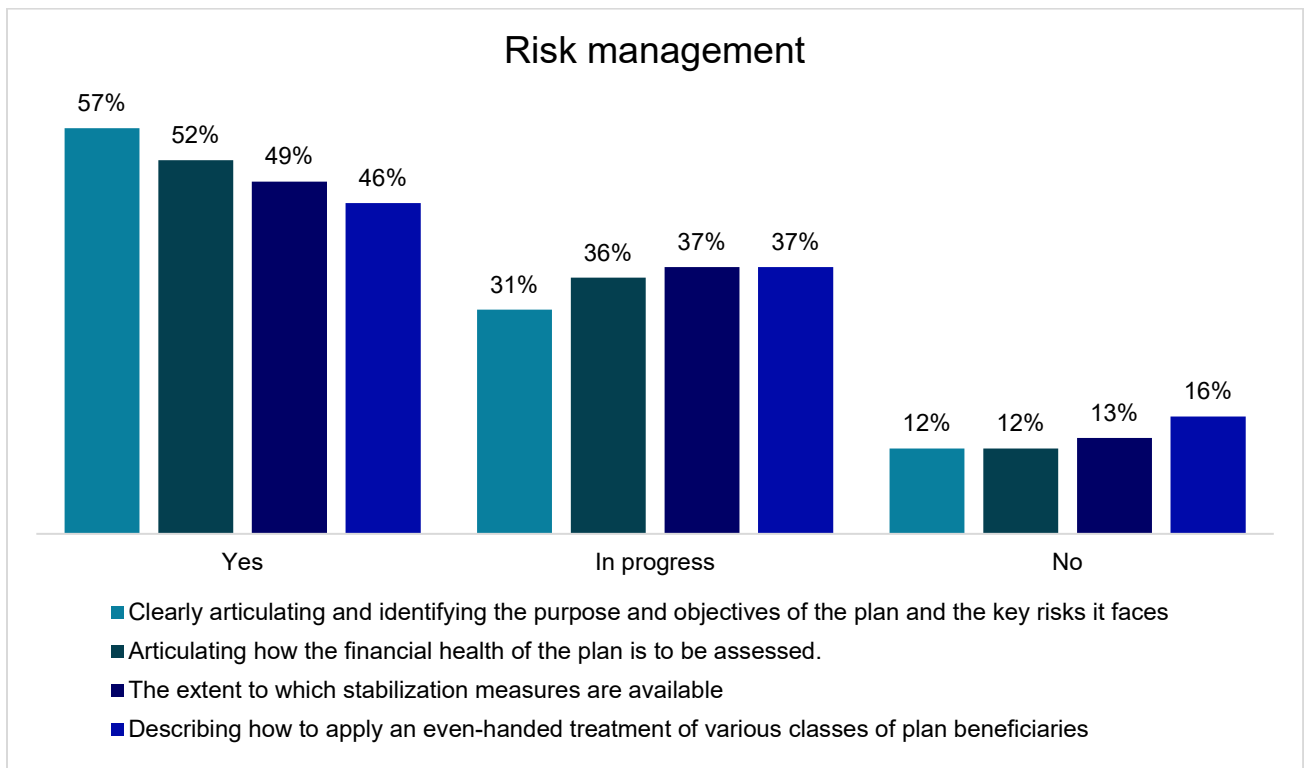
For plan administrators that have documented their education policy, investment education is often covered therein. Less formally, it is common to have external investment consultants attend Board meetings where investments are discussed, providing supplementary education on specific investments and asset classes as appropriate, particularly when investments in new asset classes are under consideration. It may be appropriate for such attendance to be formalized in the plan’s statement of investment policies and procedures.

Leading practice 6: a risk management policy that integrates funding and benefit policies and outlines the material risks facing the pension plan along with a plan to either mitigate or respond to these risks.

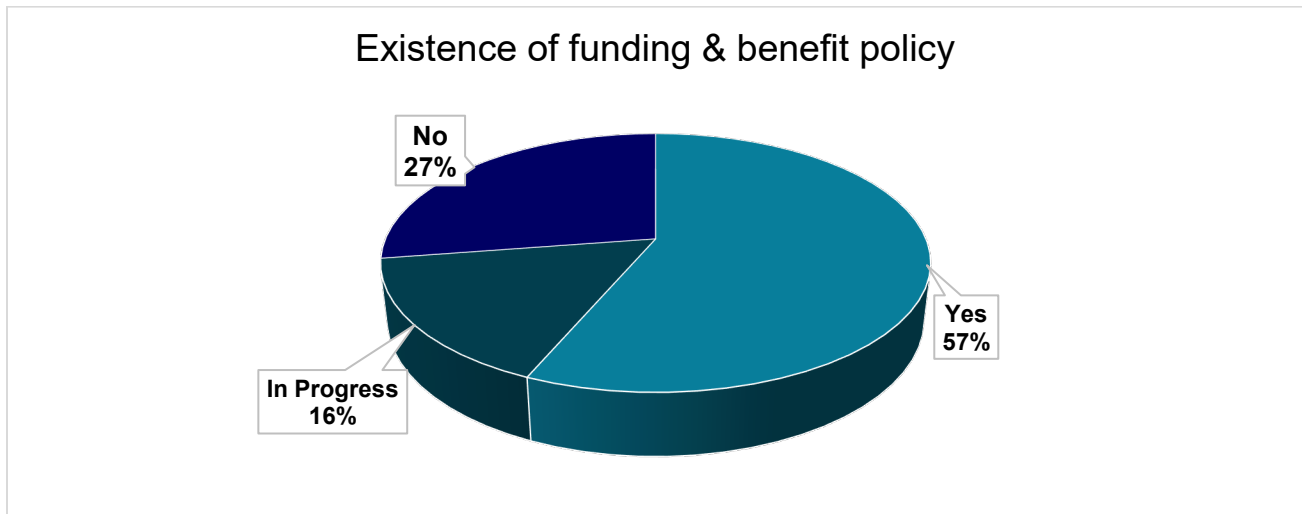
Our goal here was to establish the extent to which plans have a risk management process. Conventional risk management approaches involve identifying, assessing and categorizing, monitoring, mitigating, and reporting risks. Management of identified risks will be based on the categorization of each risk.

The chart below broadly follows that conventional approach, but we were also specifically interested in the extent a plans Funding and Benefit policy takes into consideration even-handedness amongst groups of members. Consideration of even-handedness is a key component of the Trustee role.

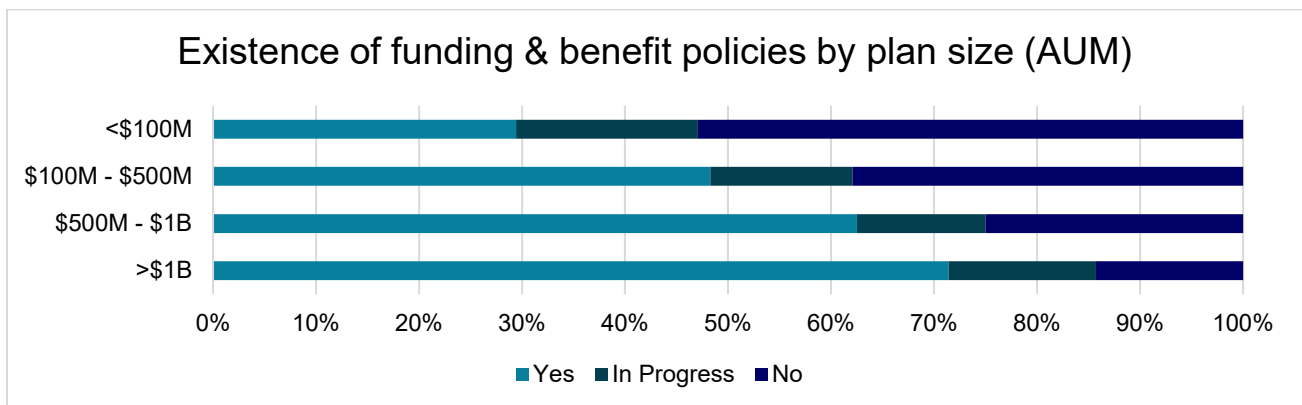
Overall, the Risk Management leading practice is the one which most plans are working to implement or improve upon. This Leading Practice is closely aligned with the unproclaimed PBA provisions and supporting regulations for target benefit pension plans, as well as CAPSA guidelines on the subject. We noted that Trustees of many plans have been waiting on decisions relating to proclamation of target benefit pension plan provisions in the PBA before advancing further with implementing this leading practice.



In addition, we wanted to understand how many plans have policies that address funding and benefits matters. The chart below summarizes those results.



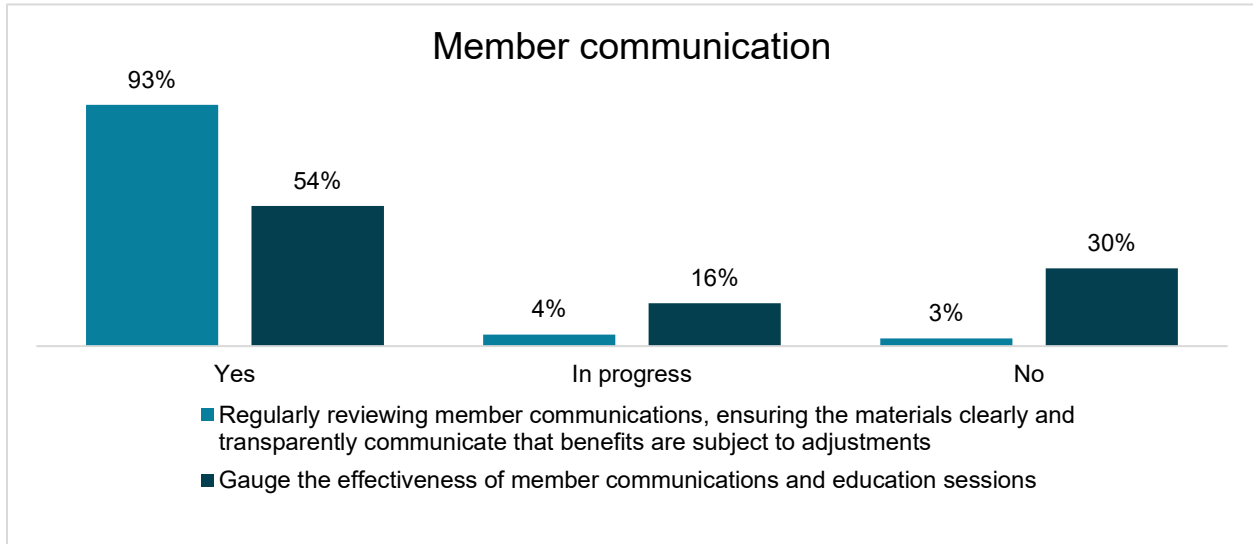
There is a notable correlation between the size of a plan (as measured by Assets under Management or “AUM”) and the existence of a Funding and Benefit Policy. The larger plans (administering \$500 million or more in assets) are those who have mostly implemented such a policy.



Leading practice 7: plain language communication for plan beneficiaries as to the nature of their pension plan such that they can make informed decisions. This includes clearly explaining the potential and likelihood for benefit adjustments.

Our goal here was to establish the extent to which plans have a structure to ensure that communication practices are incorporated, such that communication is clear and concise and effectively responds to the information needs of all stakeholders.

We are particularly interested in how plans deal with the issue of possible benefit reductions as a key component of the MEPP structure. The results are summarized in the table below.



Establishing a Communications Policy is part of the unproclaimed PBA provisions and supporting regulations that would, if proclaimed and effective, become part of the permanent framework for target benefit pension plans.⁹ In the meantime, we noted the following:

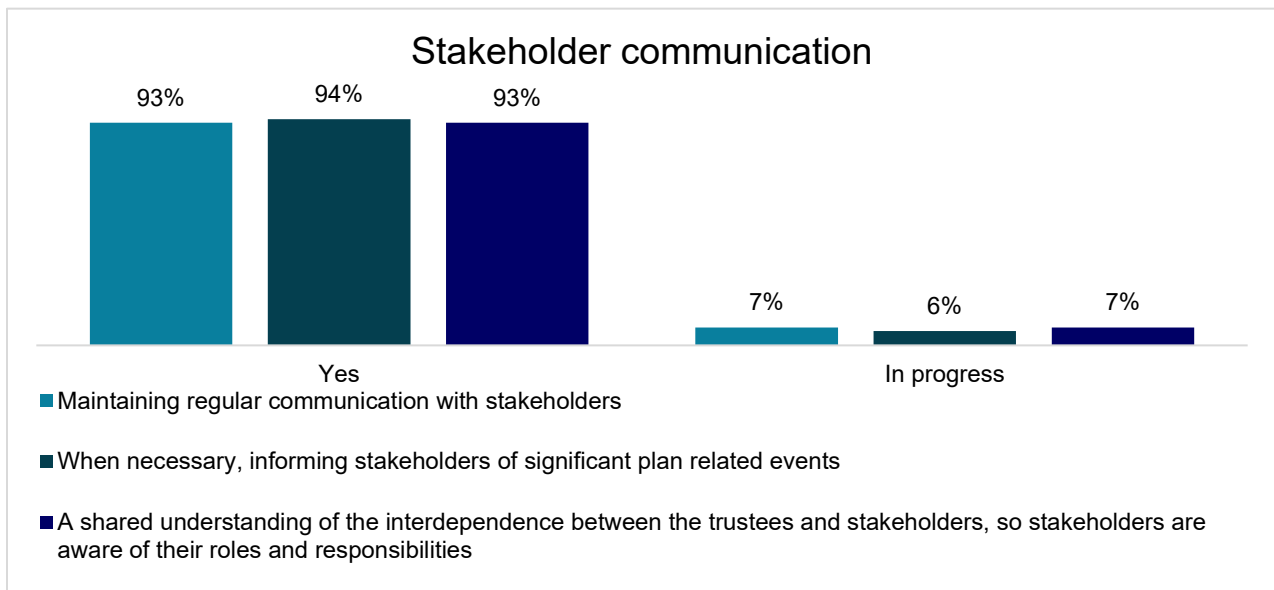
- Nearly all plans indicate they have adequate member communication tactics including regularly reviewing member communications, ensuring the materials clearly and transparently communicate that benefits are subject to adjustments.
- Many plans indicated that they are in the process of improving communication practices to enhance transparency, increase engagement, and better support members making informed decisions.

⁹ Note section “Pillar Two: Enhance Communication to Members with Required Disclosures” in [A Permanent Framework for Target Benefits: Revised Proposals, August 2023](#).

- The existence of a documented communication strategy or dedicated resources leading communication efforts is rare.
- Although close to two thirds of all plans have conducted some form of surveying or are planning to do so in the next year, surveying of members and other stakeholders is not conducted frequently. We note concerns on the effectiveness of surveys and the response rate and distortions that can be caused by uneven response rates across the various groupings within a plan.

Leading practice 8: regular, on-going dialogue between the trustees, advisors and key stakeholders involved in the plan supports awareness, collaboration, and operational effectiveness.

Our goal here was to establish the extent to which plans have a structured approach to communicating with other stakeholders. The results are shown in the chart below.



We noted the following:

- Almost all plans have indicated that they maintain adequate and timely communication with stakeholders.

- The commitment to do so is generally documented in a plan's governance policy and often repeated in a plan's investment and funding policies.
- It is also a common practice to have stakeholders such as Third-Party Administrators, Actuaries, Investment Consultants, and Legal Counsel attend many if not all Board of Trustee and related committee meetings (most often held quarterly).
- Not all plans include employer representation on the Board of Trustees. Such practice increases the importance of maintaining a strong relationship and communication practice with participating employers. This also supports efforts to ensure the issue of unlocatable members is minimized.

Conclusion

We are pleased to see a growing awareness and desire to implement various aspects of the eight Leading Practices over the past three years. Pending decisions on proclamation of the target benefit pension plan provisions in the PBA and supporting regulations, FSRA will work towards communicating with the sector on our approach for governance, funding/benefits, and communication policies as we work towards a clear supervision framework going forward. That should allow all plans to continue to progress in these Leading Practices that we regard as key for the MEPP sector.