

# Information



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## Defined Benefit Multi-Employer Pension Plans – Leading Practices

### 1. Purpose and scope

1.1. In 2020, FSRA conducted a thematic review of Defined Benefit Multi-Employer Pension Plans (DB MEPPs) under its supervision. Appendix A outlines the methodology and outcome of the review.

1.2. The thematic review focused on the areas of governance, risk management practices and communication strategies.

1.3. This Guidance aims to inform stakeholders of leading practices observed during the thematic review. FSRA encourages DB MEPP trustees and their advisors to consider their governance, risk management and communication practices, and to compare and contrast them with the identified leading practices.

1.4. FSRA is a principles-based regulator, focused on outcomes consistent with its statutory objects. FSRA's objects under the Financial Services Authority of Ontario Act, 2016<sup>[1]</sup>, are:

- To promote good administration of pension plans; and
- To protect and safeguard the pension benefits and rights of pension plan beneficiaries<sup>[2]</sup>.

1.5. FSRA's guiding principles for the supervision of the pension sector are set out in an Approach Guidance, the [Pension Sector Guiding Principles](#).

## 2. Rationale and background

### 2.1. Defining DB MEPPs

2.1.1. DB MEPPs are an important component of Ontario's retirement income system. As of March 2021, more than 1 million Ontarians participate in DB MEPPs. DB MEPPs include a range of industries, trade unions, non-profit groups and associations. These pension plans provide security and peace of mind to their plan beneficiaries, and families and communities across Ontario. For many DB MEPP plan beneficiaries, the pension benefits from these plans are important to their overall retirement income.

2.1.2. A DB MEPP is a plan to which two or more, usually unrelated, employers contribute. In addition, three main characteristics typically distinguish a DB MEPP from a Single Employer Pension Plan (SEPP):

- **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 or other agreements. In many DB MEPPs, this occurs during collective bargaining.
- **Accrued benefits can be adjusted.** The Pension Benefits Act (PBA)<sup>[3]</sup> permits DB MEPP Boards of Trustees to adjust, upward or downward, benefits for future service and / or past service. As a result, retirees could see their pensions in pay, and active members could see their accrued benefits, adjusted.

## 3. Responsibilities and practices

3.1. Pension plans 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 PBA<sup>[4]</sup> and by case law. Boards of Trustees and their advisors must be familiar with and comply with any applicable fiduciary duties, legal and regulatory requirements. Advisors must additionally adhere to any applicable professional obligations.

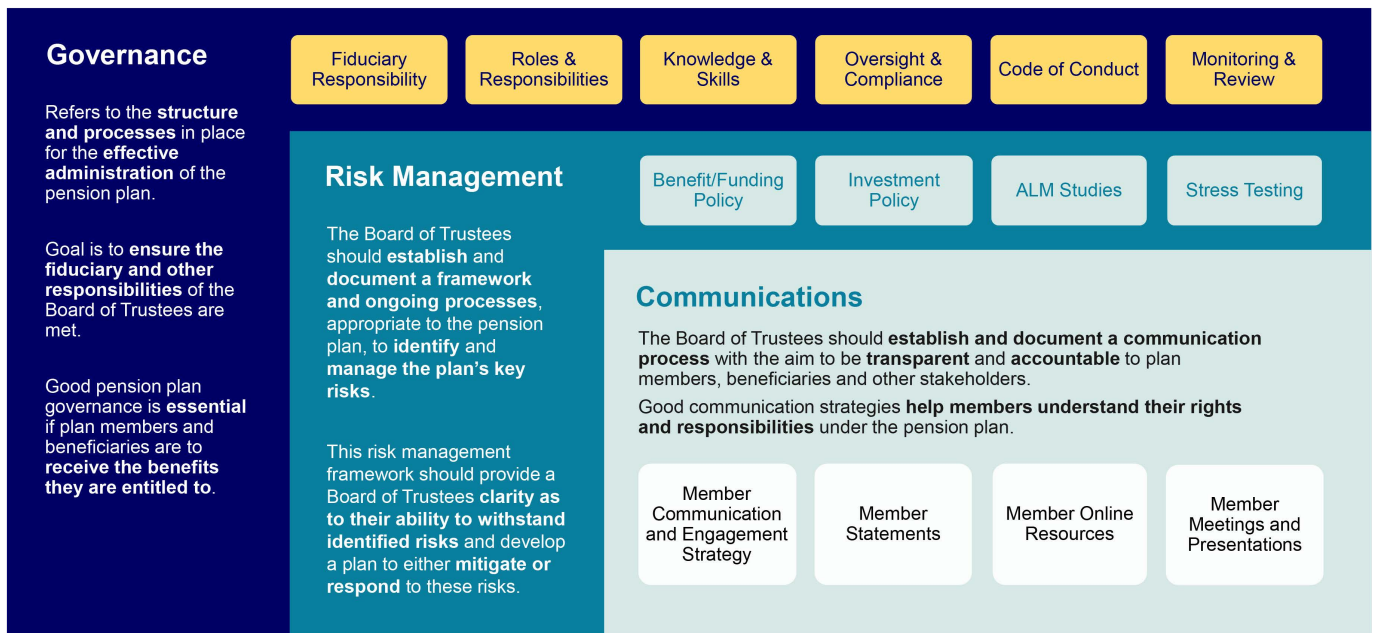
3.2. The practices set out in this Guidance are specific to DB MEPPs<sup>[5]</sup>. The leading practices observed and outlined in this Guidance should be viewed as a complement to other industry leading practices relevant to the funding, risk management and governance of the plan (e.g., the Canadian Association of Pension Supervisory Authorities (CAPSA) guidelines<sup>[6]</sup>) and should not be considered an exhaustive list.

3.3. FSRA understands that the leading practices described are for the consideration of the Boards of Trustees and that each DB MEPP is unique. FSRA also recognizes that managing a DB MEPP in today's environment means facing a variety of challenges including economic, demographic, and longevity. Some plans may be limited in their ability to implement the leading practices outlined in this Guidance.

## 4. DB MEPP leading practices identified

4.1. As outlined in paragraph 1.2, the thematic review focused on the areas of governance, risk management practices and communication strategies. The following is an adaptation of CAPSA Guideline No. 4.

### DB MEPP Review and Leading Practices are Focused on Three Key Elements



## 4.2. Governance practices

4.2.1. As outlined in CAPSA Guideline No. 4, “pension plan governance refers to the structure and processes in place for the effective administration of the pension plan to ensure the fiduciary and other responsibilities of the plan administrator are met.” [7] Additional leading practices in the governance and good administration of DB MEPPs provide Boards of Trustees information about trustee orientation, trustee education, the appointment of non-affiliated trustees and trustee succession.

### **Leading Practice 1: A comprehensive orientation policy to on-board new trustees.**

4.2.2. DB MEPP trustees come from a wide range of backgrounds and experiences. An orientation policy ensures that new trustees begin their term prepared to carry out their duty. Leading practices observed in orienting new trustees include:

- a. Review of organizational and board structure.
- b. Review of plan design and trust agreement.
- c. Pre-meeting with consultants to review plan documents.
- d. Skill assessment that connects to educational support; and
- e. Completion of educational programs within a reasonable period of a trustee’s appointment.

### **Leading Practice 2: Trustee education policies to support trustees in fulfilling their role as plan fiduciaries.**

4.2.3. In accordance with CAPSA Guideline No. 4, the MEPP Board of Trustees should “consider whether all delegates have the relevant qualifications, resources and experience to carry out their function.” [8] Leading practices in terms of trustee education policies include:

- a. A regular assessment of skills needed for the administration of the plan and whether these are by trustees or advisors.
- b. In-house, plan specific education.
- c. A list of relevant pension courses with qualified institutions or entities.
- d. A process for trustees to report back on education taken to share knowledge with the Board of Trustees; and
- e. The frequency of education requirements, i.e., annual, every two years etc.

Establishing an education policy as part of a plan's governance structure helps ensure that Boards of Trustees build a consistent knowledge base and shared competency in pension plan management.

4.2.4. FSRA acknowledges that not all plans will be able to fund education programs to the same extent. FSRA encourages each Board to consider, based on its plan's unique circumstances, education programs that will enable the Trustees to demonstrate they understand the scope of their fiduciary duties and support them in fulfilling their role as plan fiduciaries.

**Leading Practice 3: A trustee succession plan to ensure continuity on the Board of Trustees and good plan administration.**

4.2.5. A trustee succession policy establishes, among other things, a framework for identifying and recruiting future trustees. FSRA recognizes that, for various reasons, not all DB MEPPs will be able to plan for trustee succession. Nevertheless, there is value in a Board of Trustees periodically discussing this subject, even if the ability to plan for, select, and recruit trustees is limited.

4.2.6. FSRA encourages the development of guidelines outlining requirements and desirable characteristics for potential trustees and planning for succession. Leading practices in terms of trustee succession planning observed in the thematic review include:

- a. Articulating a process to efficiently identify and recruit a new trustee.
- b. Understanding of any term limits or retirements that might result in a change in the board composition.
- c. Ensuring continuity between trustees and the sharing of institutional knowledge.
- d. Describing the situations where a Board of Trustees may consider a non-affiliated trustee to complement a particular skill, expertise, or knowledge.

**Leading Practice 4: Plan enrolment policies and procedures that support members remaining connected with their pensions.**

4.2.7. The member enrolment process in a DB MEPP includes, among other things, obtaining the necessary documentation from participating employers, trade unions and plan beneficiaries required to administer and pay a pension from the plan. It is important that the enrolment process is thorough. Plan enrolment policies and procedures should seek to prevent members

from becoming disconnected from their pensions. Leading practices in this area include:

- a. Managing records consistent with good governance and record keeping processes.
- b. Communicating regularly with members, before and after employment terminates; and
- c. Following an appropriate process when the administrator becomes aware that member contact information may no longer be current.

4.2.8. Boards of Trustees and their advisors, such as third-party administrators, are encouraged to review the Missing Members Guidance for additional support. Visit [FSRA Missing Member Guidance](#) to learn more.

**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, shall they arise.**

4.2.9. Boards of Trustees are responsible for investing plan assets with care, diligence, and skill, and in the best interest of plan beneficiaries.

4.2.10. Trustees are not required to be investment experts, but they have a fundamental role in ensuring that their plan has a rigorous, process-oriented decision-making framework for plan investments and robust risk management practices. In DB MEPPs, this can generally be accomplished by integrating ongoing investment-focused educational resources for trustees, prudent delegation, and the practices of CAPSA Guideline No. 6<sup>[9]</sup> relating to prudent plan investments.

4.2.11. CAPSA Guideline No. 4 also highlights the importance of awareness and management of conflicts of interest. Trustees should ensure that their policies provide that advisors adhere to any professional conflict of interest disclosure and management standards. Examples include the CFA Code of Ethics and Standards of Professional Conduct.

### **4.3. Risk management practices**

4.3.1. As outlined in CAPSA Guideline No. 4, “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.”<sup>[10]</sup> This risk management framework should provide the Board of Trustees clarity as to their ability to withstand identified risks and develop a plan to either mitigate, accept, or respond to these risks.

**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.**

4.3.2. DB MEPP funding and benefit policies are integrated. Plan contributions are generally fixed and, as a result, the benefits stemming from the plan are linked exclusively to the plan funding policy. A detailed policy that accounts for the relationship between the plan's financial position and benefit levels would support Boards of Trustees' decisions as to when and in what manner benefit levels may be adjusted.

Leading risk management practices observed from the thematic review include:

- a. Clearly articulating and identifying the purpose and objectives of the plan and the key risks it faces.
- b. Articulating how the financial health of the plan is to be assessed. This includes, for example,
  - Principles of selection of actuarial assumptions and methodologies.
  - The frequency (and over what time horizon) at which the plan's financial position should be assessed.
  - The risk mitigation and management strategies that are to be utilized, the frequency at which they will be deployed, and the risks being evaluated:
    - Utilizing asset and liability studies to project plan assets and liabilities and resulting funded status of the plan under multiple scenarios
    - Using stress testing, either deterministically or stochastically, to assess the plan's ability to withstand and recover from adverse experience and the related impact on benefit levels
- c. The extent to which stabilization measures are available including, the relationship between the financial position and benefit levels and when and in what manner benefit levels may be adjusted.
- d. Describing how to apply an even-handed treatment of various classes of plan beneficiaries, as it relates to benefit adjustments, restructuring or allocation of surplus including, restoration of previously reduced benefits or providing additional benefits



## 4.4. Communication practices

4.4.1. Practices in this area support trustees and their designated administrators in communicating with their plan beneficiaries and various stakeholders, including trade unions, participating employers, and industry associations.

**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.**

4.4.2. The unique legislation applicable to DB MEPPs permits DB MEPPs to adjust benefits for future service and past service. Good administration includes ensuring members understand the nature and level of their benefits. Plan administrators should consider whether plan communications articulate, in easily understandable terms, the variability of benefits and the probability of the plan maintaining the existing benefit level based on current contribution rates. This applies to member presentations and educational sessions, plan handbooks, member statements and so forth.

4.4.3. Plan beneficiaries are best served if plan administrators regularly review their member communications, ensuring the materials clearly and transparently communicate that benefits are subject to adjustments.

4.4.4. Plans might also conduct member feedback sessions or include questions in other broader membership surveys to gauge the effectiveness of their member communications and education sessions in ensuring that beneficiaries have enough information to make informed decisions related to their pension benefits.

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

4.4.5. DB MEPPs generally require collaboration from multiple stakeholders to operate efficiently. It is important that regular dialogue exist among the trustees, their advisors and key stakeholders involved in the plan. Leading practices observed include:

- Maintaining regular communication with stakeholders.
- When necessary, informing stakeholders of significant plan related events; and
- Facilitating a shared understanding of the interdependence between the trustees and stakeholders, so stakeholders are aware of their roles and responsibilities

## 5. Effective date and future review

5.1. This information Guidance became effective on March 18, 2021 and will be reviewed no later than Spring 2026.

5.2. FSRA will engage those plans' trustees and their advisors that participated in the thematic review with confidential detailed reports.

5.3. As part of the publication of this Guidance, FSRA will, in consultation with the [MEPP Standing Technical Advisory Committee](#), develop and commence piloting benchmarking leading practices for Ontario-registered DB MEPPs against the leading practices identified in this Guidance. The objective of FSRA's benchmarking pilot is to communicate leading practices to DB MEPPs, and to provide Boards with a tool to better understand how their plan's policies and procedures relate to the broader MEPP universe.

FSRA expects benchmarking will result in more unified governance, risk management, operational and communication practices across MEPPs, enhanced risk profiles, and improved focus on regulatory efficiency and effectiveness.

FSRA will engage plans' trustees and their advisors with confidential detailed benchmark reports.

To support transparency and how practices outlined in this Guidance have been applied in the MEPP sector, FSRA will also aggregate and anonymize benchmark findings in a report to the sector. This report would be released by spring 2024.

## 6. About this guidance

6.1. Information Guidance is indicative of FSRA views on certain topics. They do not, of themselves, create compliance obligations. Visit [FSRA's Guidance Framework to learn more.](#)

## 7. Appendix A – Methodology & thematic review

### 7.1. Methodology

7.1.1. In 2020, FSRA conducted a thematic review of 21 Ontario-registered DB MEPPs. These MEPPs were selected for review on the basis that this sample group was a proxy for the overall sector. When selecting the sample group, consideration was given to a diversity of factors such as, industry, asset base, membership base, third-party administration/in-house administration, and actuarial services providers.

7.1.2. Of the 73<sup>[11]</sup> Ontario-registered DB MEPPs, FSRA selected the following 21 plans for the thematic review:

Industry	No. of Plans	Selected for Review
Construction	50	13
Accommodation & Food Services	4	2
Not for Profit	8	2

Industry	No. of Plans	Selected for Review
Health Care	1	1
Transportation	5	2
Entertainment	5	1
Total	73	21

7.1.3. In terms of the thematic review’s methodology, sampled plans were reviewed based on an identical set of 144 questions asked by representatives from the FSRA Examinations Team.

## 7.2. Results of thematic review – governance

The following leading practices were observed in more than half the plans FSRA reviewed. Some of the observed practices go beyond the legislative requirements and industry leading practices.

7.2.1. Leading practices related to governance include:

- A clear understanding among trustees as to their fiduciary duties and evidence that this was being fulfilled
- Boards of trustees with a high level of knowledge and skill
- Trustee orientation and education policies
- Clear establishment of trustee responsibilities and accountabilities of all participants in the pension plan governance process
- Trustee codes of conduct and a thorough conflict of interest policy
- Meeting quorum and board meeting minutes effectively capturing decisions and supporting rationale.
- The use of trustee self-assessments
- A clear process for the delegation and selection of third-party service providers
- Well-established processes for tracking deferred members (e.g., follow-up on returned mail, professional search services, contacting union offices, industry organizations)
- Strong record keeping processes and the overall maintenance of accurate member information.

7.2.2. More than half the plans in FSRA’s thematic review adopted the following practices:

Governance	Description	PBA Requirement	CAPSA Guidelines
Charter of Board of Trustees	Well documented Charters for the Board of Trustees	No	Yes

Governance	Description	PBA Requirement	CAPSA Guidelines
Documentation of Administrative Policies and Procedures	Administrative policies and procedures documenting: member enrollment, maintaining accuracy of member information, frequency of the funded status review, benefit payments, review of third-party service providers, communication/ engagement with plan beneficiaries.	No	Yes

Governance	Description	PBA Requirement	CAPSA Guidelines
Board Education and Support	<p>Training and education policies are in place.</p> <p>Third party service providers (actuary, counsel, investment managers, etc.) are regularly present at trustee meetings.</p> <p>Succession plan in place.</p>	No	Yes
Board Review / Self Assessments	<p>Evaluate the extent to which trustees have the tools needed to ensure they meet their fiduciary responsibilities.</p>	No	Yes

Governance	Description	PBA Requirement	CAPSA Guidelines
Conflict of Interest Policy / Process	<p>Documented code of conduct applicable to the Board of Trustees that includes a policy to identify and manage conflicts of interest. Procedures to identify, monitor and address material conflicts of interest, both actual and perceived are addressed. Reference to codes of conduct and policies for professional advisors including disclosure to the Board of Trustees</p>	Yes	Yes



## 7.3. Results of thematic review - risk management

7.3.1. Risk Management policies should provide a holistic roadmap for pension plan risk management. Policies in this important area support Boards of Trustees in managing funding, investment, and other risks in their plans.

Leading practices observed related to risk management include:

- The implementation of risk management tools, like stress tests and projections
- A policy outlining when risk management tools will be deployed, and the risks being evaluated
- Detailed funding policies that account for the relationship between the plan's financial position and benefit levels and when and in what manner benefit levels may be adjusted
- Identification, assessment, and prioritization of the potential risks
- Monitoring and evaluating of the risks and effectiveness of responses/risk management processes
- Documentation of risk management processes

7.3.2. More than half the plans in FSRA’s thematic review adopted the following practices:

Risk Management	Description	PBA Requirement	CAPSA Guidelines
Risk Management Framework	Documentation and use of a comprehensive risk management framework: identification, assessment, and prioritization of material risks; acceptance of the risks or development and implementation of risk-mitigating strategies, including stress-testing; monitoring and evaluating of the risks and effectiveness of responses/risk management processes.	No	Yes

Risk Management	Description	PBA Requirement	CAPSA Guidelines
Asset-Liability Management Study	Have regularly conducted an asset-liability study to ensure trustees have not exceeded an appropriate level of risk given a plan's funded status and liability profile and have adopted and implemented (or are in the process of transitioning to) one of the recommended portfolios.	No	Yes
SIPP Content	Complies with all disclosures required by the federal investment rules and PBA and has been reviewed annually as required.	Yes	Yes

Risk Management	Description	PBA Requirement	CAPSA Guidelines
	Some content exceeds minimum legislative requirements and incorporates industry leading practices such as, CAPSA.	No	Yes

## 7.4. Results of thematic review - communications

7.4.1. Communications: Policies support administrators in communicating with their members as well as external stakeholders, such as trade unions participating employers and industry associations.

- Leading practices observed related to communications include:
- Robust member communication strategies that include member information sessions, newsletters, website portals, and retirement planning tools
- A process for measuring the success/impact of a plan's communication strategy

7.4.2. More than half the plans in FSRA’s thematic review adopted the following practices:

Communications	Description
Member Communications / Disclosure	Robust member communication strategies which exceed minimum legislative requirements, and include member information sessions, newsletters, website portals, retirement planning tools, access to financial planners.

## 8.0 Appendix B - Leading Practices

8.1. The chart below lists the Leading Practices observed in the thematic review and summarized in this Information Guidance.

<p><b>Leading Practice 1</b></p>	<p>A comprehensive orientation policy to on-board new trustees.</p>
<p><b>Leading Practice 2</b></p>	<p>Trustee education policies to support trustees in fulfilling their role as plan fiduciaries.</p>

<b>Leading Practice 3</b>	A trustee succession plan to ensure continuity on the Board of Trustees and good plan administration.
<b>Leading Practice 4</b>	Plan enrolment policies and procedures that support members remaining connected with their pensions.
<b>Leading Practice 5</b>	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, shall they arise.
<b>Leading Practice 6</b>	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.

**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.

**Leading Practice 8**

Regular, on-going dialogue between the trustees, advisors and key stakeholders involved in the plan supports awareness, collaboration, and operational effectiveness.

**Effective Date:** March 16, 2021

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[1] Section 3(3) of the FSRA Act.

[2] Plan beneficiaries are persons receiving, or is entitled to receive, a benefit under a pension plan.

[3] Section 14(2) of the Pension Benefits Act.

[4] Section 22(1) and 22(2) Pension Benefits Act.

[5] Jointly sponsored pension plans (JSPPs) share many similar features as DB MEPPs, but for the purpose of this Guidance, the focus is strictly on DB MEPPs that can amend accrued benefits

[6] CAPSA Guidelines at <https://www.capsa-acor.org/CAPSAGuidelines>

[7] CAPSA Guidelines at <https://www.capsa-acor.org/CAPSAGuidelines>

[8] CAPSA Guidelines at <https://www.capsa-acor.org/CAPSAGuidelines>

[9] CAPSA Guidelines at <https://www.capsa-acor.org/CAPSAGuidelines>

[10] CAPSA Guidelines at <https://www.capsa-acor.org/CAPSAGuidelines>

[11] As of November 2020.