

An effective governance system for a pension plan:

- includes a framework for defining the duties, associated responsibilities and accountabilities for all participants in the governance process
- covers all facets of program management
- provides careful oversight while enhancing protection for plan members and beneficiaries

These best practice guidelines can apply to other types of CAP arrangements (Source: CAPSA No. 4 Pension Plan Governance Guidelines)

# Now's The Time To Challenge Your CAP Governance Approach

BY: MICHELLE LODER & ANNE ANANDDAKOPAL

**G**overnance activities for capital accumulation plans (CAPs) continue to gain momentum and attention in Canada, especially given the notable increase in membership in these types of programs at the expense of defined benefit plan membership and as it has proven itself to be an area of increased focus by regulators. The COVID-19 pandemic and its impacts on market volatility, members' financial wellbeing, and on overall wellbeing is prompting sponsors to re-examine and question whether their programs are fully optimizing their potential to deliver valued benefits for their workforce and how their governance frameworks may be leveraged to achieve superior results.

'Governance' can mean different things to different people. It can be viewed along a spectrum of processes and policies designed to ensure regulatory compliance at one end to a framework that encompasses independent investment oversight and regular review of key program metrics and service standards reported by administrative service providers. The question is whether a governance framework can or should be leveraged to not just protect members and beneficiaries, but also to enhance the delivery of retirement benefits, capitalizing on opportunities to promote greater program efficiency without necessarily or automatically landing on the somewhat obvious solution of just contributing more. We believe the answer is a resounding 'yes.' In fact, there is no better time than the present to review some of the more common and routine governance activities typically followed by CAP sponsors and to make strides to achieve a framework that delivers added value; one that can benefit CAP participants and plan sponsors by maximizing the value of member benefits delivered for the money and effort contributed.

## The Governance Framework Spectrum In Practice

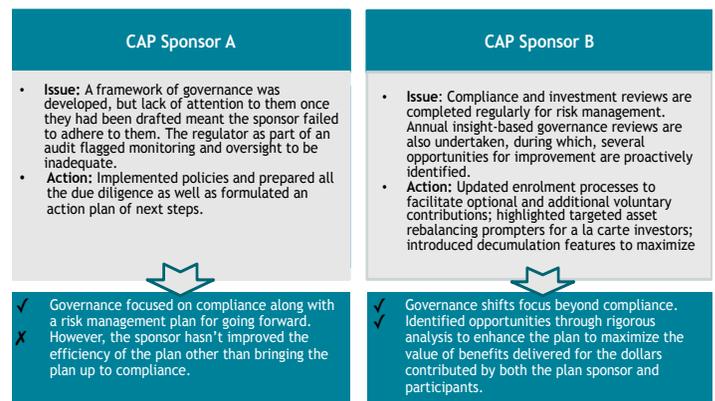
Generally, and in our experience, most governance frameworks fall under one of three categories:

Framework	(1) Policies and legislative compliance focus only	(2) Compliance + service provider reporting	(3) Compliance + service provider reporting + independent investment oversight
Approach	Focuses on minimum legislative compliance and governance standards. There may be some attention paid to CAPSA Guidelines, but there are often significant gaps observed	Builds on the compliance and documentation of policies exercise to receive and review periodic reporting from the plan service provider regarding fund performance and membership engagement.	Layers on a level of independent, qualified and unbiased oversight of investment monitoring.
Pitfalls	These approaches can often become "one-time initiatives" rather than an ongoing, living process, which can lead to poor adoption or compliance issues.	These approaches are seldom satisfactory on their own from a fiduciary perspective and often fall short of identifying proactive and practical insight to improve program efficiency.	While a common and reliable framework, these approaches often fail to examine the program from its various angles to identify inefficiencies in program design, member-choice support frameworks and ongoing engagement, administrative activities in a rapidly evolving CAP market landscape.

There is a fourth governance framework emerging that sponsors are shifting towards – an insight-based governance approach to maximize program value. We believe that robust governance frameworks deliver on compliance, risk management, and protection for members; but that the most effective frameworks go beyond that to enhance program efficiency and to maximize delivery of retirement outcomes for members for dollars contributed.

Our experience suggests that conventional approaches can yield a sub-optimal program as governance and monitoring activities can quickly morph into routine risk management exercises while overlooking the opportunities to enhance the value of the program or achieve greater efficiency. While risk management is a foundational component of any governance framework, we advocate for an insight-based governance philosophy, one that undertakes to deliver an independent, insight-based examination of all key facets of the program with an aim to maximize retirement outcome delivery.

The illustration below highlights two scenarios of governance approaches: improving policies and compliance activities (as with CAP Sponsor A below) and engaging on an insight-based governance framework (as with CAP Sponsor B below). While Sponsor A adopted an improved governance monitoring approach and demonstrate a more robust management of the program, it is Sponsor B who benefits from the ongoing insight-based governance framework as it leverages opportunities to improve and enhance the value proposition to its participants.



We believe now, more than ever, is the right time to elevate the governance approach from one that is designed primarily with compliance or risk management objectives to one that challenges for continuous improvement and identifies opportunities to improve program efficiency. Adopting such an insight-based approach not only supports sponsors in achieving their program objectives more effectively, but it can also serve to ensure that the maximum benefit is being delivered for every sponsor and participant dollar that is being contributed. In times of mounting financial pressure and uncertainty, we believe this is where some focus on CAP program management and governance should be placed. **BPM**

### Michelle Loder

is vice president, defined contribution solutions, at Morneau Shepell.

### Anne Ananddakopal

is a principal, defined contribution solutions, at Morneau Shepell.