The Certified Employee Benefit Specialist® Program

RPA 2 Managing Retirement Plans Part 2

Study Materials Update—June 2023

This material is required reading for purposes of the CEBS program and the national exams for the RPA 2 course administered on or after October 15, 2023.

This update corrects earlier printings of the RPA 2 Study Guide, Second Edition in light of recent legislative changes. This update covers Modules 2, 9, 10, 12 and 13 of the Study Guide (First Printing: December 2021 and Second Printing: June 2022).

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How to Use This Update

For the printed version of the Study Guide:

Keep this update with your study materials. It should be read in conjunction with the assigned reading for RPA 2.

For the digital Study Guide:

These updates will be reflected in the digital versions of the Study Guide.

Instructions

There are two types of updates:

1. Minor—Where changes are made to a small section of the text, changes are indicated in **bold.**
2. Major—Entire sections are provided as a replacement.

Study Guide Module 2

Pages 39-40, Text and Reading Commentary: Remove the current pages 39 and 40 from your Study Guide and replace them with the new pages that follow. The replacement pages have updated statistics from the Pension Investment Association of Canada (PIAC).

Futures Contracts, Text, Page 63

Futures contracts differ from options because futures contracts involve an obligation to either buy or sell an asset. Options are just that—There is no obligation to take action once the cost of the option has been paid by the potential investor.

In a futures contract, two parties agree to the price of an asset (e.g., a stock or a commodity) at an agreed-upon date in the future. This price is called the futures price. One party agrees to purchase the asset on the delivery date (this investor is said to take the "long position"), while the other party agrees to sell the asset on the delivery date (this investor is said to take the "short position"). For example, an investor who expects XYZ stock to increase in price in the coming months purchases a futures contract to buy 100 shares of XYZ at $50 in six months' time. This investor is said to be long 100 shares of XYZ stock. Another party agrees to deliver the 100 shares of XYZ stock in six months' time, at the same price. The second investor is said to be short 100 shares of XYZ stock.

The investor holding the long position profits from price increases (i.e., ignoring fees, the long position profits if the market value of the stock on the delivery date is greater than $50 and takes a loss if the market value of the stock on the delivery date is less than $50). The short position's loss equals the long position's profit. Short-selling puts the investor in a position of unlimited risk and a capped reward. For example, if an investor enters into a short position on a stock trading at $50, the most this investor can gain is $50 less fees, while the most this investor can lose is infinite, since the stock can technically increase in price forever.

Alternative Investments for Pension Funds

The asset classes of cash, bonds and stocks described in the text are the traditional asset classes used by managers of defined benefit (DB) pension funds. Prior to 2000, these types of assets represented more than 90% of the investments of the largest Canadian DB pension funds. Since that time though, these plans have added a range of "alternative" types of assets to their portfolios, at significant levels. Investments included under the asset class of "alternative investments" include real estate, infrastructure, private equity/ venture capital and hedge funds.

The table below identifies this shift, as reported by the Pension Investment Association of Canada (PIAC). (PIAC's members are over 130 of the largest pension plans in Canada, with assets of approximately $2.5 trillion at the end of 2021.)

The table below illustrates the asset classes used by members of the PIAC. PIAC's members are over 130 of the largest defined benefit (DB), defined contribution (DC) and hybrid pension plans in Canada with assets of approximately $2.8 trillion under management at the end of 2021. The asset mix of DB plan sponsor organizations represented by PIAC members as of Dec 31, 2021, is as follows:

Actual % Exposure	Fixed Income	Equity	Alternatives
Average	40%	40%	25%
Median	33.3%	39.4%	24.1%

"Average" and "median" exposures are different measures; hence the different values shown above. The average of a data set is simply the total of all values within the data set divided by the number of values in the set. The median identifies the middle value within data set when all values are placed in order from least to greatest (i.e., the value for which half the observations are larger and half are smaller).

Both metrics can be used to describe the "centre" of a data set's distribution. However, median is a more appropriate measure to use when there are outliers, or extremes within the data points, or if the distribution of the data points doesn't match with a normal distribution because the values are skewed (i.e., trailing off more sharply on one side of the "centre" than the other).

DB pension fund managers express a belief that an increase to their allocations to alternative investments can result in such positive outcomes as:

1. Increased diversification of the pension fund
2. Enhancement of investment returns
3. Mitigation of portfolio risk through successful hedging strategies.

The degree to which each of those positive outcomes is realized can vary by the type of alternative investment.

Decisions made around investing pension funds in alternative investments will involve a program of due diligence by the DB pension plan sponsor. This process should balance the expected positive outcomes described above with those characteristics of alternative investments that may prove challenging for the pension plan sponsor. These characteristics include:

1. Higher fees. Fees associated with alternative investments are generally higher than those applicable to traditional asset classes, including higher "base" fees and potential performance fees.
2. Less liquidity. Alternative asset classes can be less liquid than traditional asset classes that operate within established capital markets. This loss of liquidity can apply both to the underlying investment (such as infrastructure) and the ability to change managers.

Study Guide Module 9

Pages 9-10, Module 9: Remove the current pages 9-10 from your Study Guide and replace them with the new pages that follow. Page 9 has updated information in Learning Outcome 2.2, bullet (b) about requirements for statements of investment policy and procedures for member-directed plans.

Pages 27-28, Investment Regulations for Employer-Sponsored Retirement Plans: Remove the current pages 27-28 from your Study Guide and replace them with the new pages that follow. Page 27 has updated information in the section about SIPP requirements, bullet (b).

2.2 Describe the general requirements for investment policy statements (SIPPs) as outlined in pension standards legislation. (Reading A, Study Guide Module 9, pp. 27-28)

All jurisdictions require that the pension plan administrator (or in Quebec, the pension committee) establish an investment policy statement (SIPP) in respect of the pension plan's investments, subject to the following.

(a) Plans subject to the federal PBSA, plans in jurisdictions that have adopted the federal investment rules and plans registered in Quebec do not require a SIPP when the pension plan consists of "member choice" accounts. "Member choice" accounts are those within a defined contribution pension plan where individual members are permitted to make investment choices.

(b) Ontario continues to require a SIPP for any pension plan that contains both defined benefit provisions and defined contribution provisions that allow member choice of investments. New Brunswick requires a SIPP for a "member choice" pension plan.

(c) While unusual, not all defined contribution pension plans offer members the choice of investments and, as a result, administrators of such plans must establish a SIPP.

Most jurisdictions (Alberta, British Columbia, New Brunswick, Newfoundland and Labrador, Nova Scotia and Quebec) include requirements for the SIPP to consider the nature of the plan and its liabilities and/or take into consideration factors that may affect the plan funding and solvency as well as the ability of the plan to meet its financial obligations. While the federal PBSA does not include this requirement, CAPSA Guideline No. 6, which identifies "prudent" investment activities, does recognize that prudence requires considering the nature of the plan.

2.3 Identify the general elements normally included in a statement of investment policy and procedures (SIPP) for an RPP. (Reading A, Study Guide Module 9, p. 28)

The statement of investment policy and procedures (SIPP) will normally include descriptions of:

1. The nature of the pension commitment (e.g., are pensions indexed?) and the goals of the plan sponsor (e.g., is the plan intended to meet conditions imposed by collective bargaining?)
2. How governance and other responsibilities have been allocated among stakeholders and outside service providers
3. The long-term asset allocation of the pension fund and any benchmark portfolio associated with that allocation, usually expressed in terms of capital market indices
4. Quantitative objectives and constraints
5. Qualitative objectives and constraints.

2.4 Describe how Canadian pension standards legislation imposes quantity restrictions on a pension fund's investments. (Reading A, Study Guide Module 9, p. 28)

All jurisdictions specify certain quantity restrictions for the investment of a pension fund. For federally regulated plans and those in jurisdictions that have adopted the federal investment rules, investments are subject to the following limits:

(a) A maximum of 10% of the market value of plan assets can be invested in any one entity except for investments that are guaranteed by the federal or provincial government, in insured deposits, in mutual funds that themselves comply with this 10% limit or in a fund that replicates the composition of a recognized market index. The limit is applicable at the time that the investment is made and applies to the aggregate of debit and equity investments.

(b) A maximum of 30% of the voting shares of any corporation—except that in the case of real estate, resource and investment corporations, the limit may be exceeded under certain conditions.

New Brunswick and Quebec each include quantity restrictions that are similar but not identical to those above.

Pension Standards Legislation

The general regulatory environment for registered pension plans extends to the investments made with plan assets; that is, in order to obtain and keep registered status, a pension plan's investments must comply with both Income Tax Regulations and the pension standards legislation in effect in the various jurisdictions. Pension standards legislation is not applicable to nonpension registered plans such as Group RRSPs and DPSPs.

All jurisdictions' investment regulations include three key aspects:

1. The requirement for a written investment policy statement, often referred to as a statement of investment policy and procedures, or SIPP
2. Quantity restrictions applicable to certain types of investments
3. Rules relating to related party transactions (often referred to as "self-dealing rules").

The federal Pension Benefits Standards Act (PBSA) contains investment rules applicable to all federally registered pension plans, and these rules also generally apply in some other jurisdictions (Alberta, British Columbia, Manitoba, Newfoundland and Labrador, Nova Scotia, Ontario and Saskatchewan) that have chosen to adopt the federal rules. The federal PBSA investment rules (and other terms of the federal PBSA) also apply in Prince Edward Island, which has not enacted pension standards legislation.

New Brunswick and Quebec have their own investment rules applicable to plans registered in those jurisdictions.

Following is additional description of these key pension plan investment requirements.

SIPP Requirements

All jurisdictions require that the pension plan administrator (or in Quebec, the pension committee) establish an investment policy statement (SIPP) in respect of the pension plan's investments, subject to the following:

(a) Plans subject to the federal PBSA, plans in jurisdictions that have adopted the federal investment rules and plans registered in Quebec do not require a SIPP when the pension plan consists of "member choice" accounts. "Member choice" accounts are those within a defined contribution pension plan where individual members are permitted to make investment choices.

(b) Ontario continues to require a SIPP for any pension plan that contains both defined benefit provisions and defined contribution provisions that allow member choice of investments. New Brunswick requires a SIPP for a "member choice" pension plan.

(c) While unusual, not all defined contribution pension plans offer members the choice of investments and, as a result, administrators of such plans must establish a SIPP.

The statement of investment policy and procedures will normally include descriptions of:

1. The nature of the pension commitment (e.g., are pensions indexed?) and the goals of the plan sponsor (e.g., is the plan intended to meet conditions imposed by collective bargaining?)
2. How governance and other responsibilities have been allocated among stakeholders and outside service providers
3. The long-term asset allocation of the pension fund and any benchmark portfolio associated with that allocation, usually expressed in terms of capital market indices
4. Quantitative objectives and constraints
5. Qualitative objectives and constraints.

Most jurisdictions (Alberta, British Columbia, New Brunswick, Newfoundland and Labrador, Nova Scotia and Quebec) include requirements for the SIPP to consider the nature of the plan and its liabilities and/or take into consideration factors that may affect the plan funding and solvency as well as the ability of the plan to meet its financial obligations. While the federal PBSA does not include this requirement, CAPSA Guideline No. 6, which identifies "prudent" investment activities, does recognize that prudence requires considering the nature of the plan.

Quantity Restrictions

All jurisdictions specify certain quantity restrictions for the investment of a pension fund. For federally regulated plans and those in jurisdictions that have adopted the federal investment rules, investments are subject to the following limits:

(a) A maximum of 10% of the market value of plan assets can be invested in any one entity except for investments that are guaranteed by the federal or provincial government, in insured deposits, in mutual funds that themselves comply with this 10% limit or in a fund that replicates the composition of a recognized market index. The limit is applicable at the time that the investment is made and applies to the aggregate of debit and equity investments.

(b) A maximum of 30% of the voting shares of any corporation—with the exception that in the case of real estate, resource and investment corporations, the limit may be exceeded under certain conditions.

New Brunswick and Quebec each include quantity restrictions that are similar but not identical to those above.

Study Guide Module 10

Pages 1 and 2, Assigned Reading: Remove the current pages 1 and 2 from your Study Guide and replace them with the new pages that follow. Page 2 has an updated Candidate Note for Reading B.

Page 23, Investment Policy Statement Requirements: Replace the first sentence of the first paragraph with the following two sentences:

Canadian pension standards legislation requires the establishment of a written policy statement (usually referred to as a SIPP) for all defined benefit plans and, in some jurisdictions, for defined contribution plans. The SIPP is to reflect the investment practices and policies followed by the plan sponsor and any parties to whom the plan sponsors has delegated investment responsibilities.

Developing the Statement of Investment Policy

Module 10

As indicated in the preceding module, many registered pension plans (RPPs) are required by law to have a written statement of investment policies and procedures (SIPP) or written goals in respect of the plan's portfolio of investments and loans. Note that this is also commonly referred to simply as an investment policy statement. For capital accumulation plans (CAPs), both pension and non-pension, compliance with the Guidelines for Capital Accumulation Plans (CAP Guidelines) addresses many of the same elements as contained in a SIPP. A good SIPP and/or compliance with the CAP Guidelines helps administrators meet the recognized standard of care in the area of plan investments. In turn, this can assist in the optimization of members' benefits under CAP provisions and the fulfillment of promised benefits under defined benefit (DB) pension plan provisions.

SIPPs can be elaborate or simple, but they must reflect some key elements. This module looks at elements contained in SIPPs for both DB and defined contribution (DC) pension plans and the process of developing a SIPP. The concept of "investment beliefs" as they impact SIPPs is introduced.

As seen in the preceding module, many provinces have elected to adopt some or all of the federal investment regulations. For this reason, the scope of the federal Guideline for the Development of Investment Policies and Procedures for Federally Regulated Pension Plans is far-reaching. Additional guidance has been provided by Ontario to assist plan administrators in their understanding of Ontario's requirements for plan sponsors to reflect environmental, social and governance (ESG) factors within their SIPP.

These guidelines can be adapted by each plan administrator to reflect plan-specific benefit obligations, pension fund objectives and, for DB pension plans, all other factors that may affect the ongoing plan funding and solvency and the ability to meet financial obligations. Once developed and approved, the SIPP becomes a vehicle for monitoring both fund and manager performance.

Assigned Reading

Reading A
Investment Policy Statement Requirements, Study Guide Module 10, Pages 23-25

Reading B
Office of the Superintendent of Financial Institutions Guideline for the Development of Investment Policies and Procedures for Federally Regulated Pension Plans (OSFI SIPP Guideline), Study Guide Module 10, Pages 27-49 (excluding Appendix I, Section I.3.2)

Candidate Note: Reading B was written before the removal of foreign investments for pension funds. On Page 46, under Foreign Exposure, delete the final clause of the second sentence, specifically the words "perhaps the most important being the limit imposed by the Income Tax Act." Also note that despite the use of "SIP&P" within Reading B, this Module and previous Modules in this course and RPA 1 have adopted the abbreviation "SIPP" when referring to an investment policy statement.

As of April 2015, federal pension standards legislation was changed to eliminate the requirement that member-directed defined contribution plans adopt SIPPs. A number of Canadian jurisdictions have adopted the investment requirements of the federal pension standards legislation. As a result, SIPPs for such member-directed defined contribution plans are no longer required in those jurisdictions, including, most recently, Ontario. However, all jurisdictions continue to require a SIPP for any hybrid or combination pension plan that includes both defined benefit and defined contribution provisions.

~~**Reading C**~~
~~Financial Services Commission of Ontario Guidance Note IGN-003, Statements of Investment Policies and Procedures (SIPPs) for Member-Directed Defined Contribution Plans, Study Guide Module 10, Pages 51-55~~

Candidate Note: Due to legislative changes, Reading C is no longer required. This content has been removed from this module.

Reading D
Financial Services Commission of Ontario Guidance Note IGN-004, Environmental, Social and Governance (ESG) Factors, Study Guide Module 10, Pages 57-61

Reading E
Get Investment Beliefs Out on the Pension Committee Table, Study Guide Module 10, Pages 63-65

Appendix 1
CAPSA Guideline No. 3, Guidelines for Capital Accumulation Plans (CAP Guidelines), Sections 2.2, 2.3 (Pages 7-8) and 6.3 (Pages 17-18)

Study Guide Module 12

Page 27, Capital Accumulation Plan Investment Cycle: Replace the first paragraph of "Step 1: Develop Investment Policy" with the following:

Investment objectives and constraints are core elements of a CAP investment policy, formalized in some jurisdictions in a pension plan SIPP. Where a SIPP is not required, adoption of the best practices outlined in the CAPSA Guideline No. 3, Guidelines for Capital Accumulation Plans (CAP Guidelines) will require documentation of the plan's investment objective and constraints.

Page 35, Capital Accumulation Plan Investment Cycle: Replace the final paragraph with the following:

Guidance issued by the Ontario pension regulator included in Module 10 (Overview of Statements of Investment Policy and Procedures (SIPP) Requirements) recommends that the SIPP for a hybrid or combination plan include documentation of how investment managers are chosen, monitored and replaced, in a manner that encourages compliance with the policy's goals and procedures.

Study Guide Module 13

Pages 19 and 20, Capstone Case, Part B: Remove the current pages 19 and 20 from your Study Guide and replace them with the new pages that follow. The replacement pages have updated information about requirements for statements of investment policy and procedures.

Dennis echoed Simon's concerns. ***"That is the only information we have on hand about Time Is Right."*** Dennis pointed to the proposal in Liana's hand. ***"Basically, we need your help in assessing their services and some advice on how we can implement John's instructions."***

Liana wasn't particularly surprised at what Simon had described. She had some empathy for Dennis and Simon because she knew that John could be a difficult individual to work with. Rationality wasn't always involved in discussions with him about financial matters.

"Thanks, Simon. I have some knowledge of Time Is Right. Their primary focus is on the management of funds for high-net-worth individuals, and John fits their target market. I haven't run into them in my work with employer-sponsored pension plans, and I don't know whether they manage pension funds. I'll do some research into their operations on your behalf. However, in the meantime, I suspect that your greater concern relates to how to satisfy John. Am I right?" Liana asked.

"Absolutely," responded Dennis. ***"This focus on 'higher' and 'better' returns is often accompanied by comments around the volatility of our pension plan contributions. That doesn't seem to mesh with the normal investment tenets that you can get higher returns only if you take more risk. And the consequences of that may be wide swings in the funded status of the plan, leading to variation in contributions."*** Simon nodded in agreement. Dennis had said exactly what he was thinking.

"I get it," said Liana. ***"I'm sure you want, as much as it is possible, to educate John a bit around that risk/reward relationship and the legalities of pension investments. If you can give me a bit of time on this project, I can put something together for you on both of these matters."*** Liana paused before continuing. ***"And, it may be useful for your corporate lawyers to be involved with this discussion as well. They have a retirement plan practice, and while we haven't needed their assistance since John's acquisition of the firm, I think they can be a valuable resource in this situation. While I've helped your committee structure its governance practices, their involvement may offer more weight to your discussions with John. Can we include them in this discussion?"***

Dennis and Simon looked at each other. Simon responded, ***"We do feel a sense of urgency around this, but I understand that you'll need some time. I'll contact the lawyers and ask them to cooperate on this project and to give it some priority. Then once you've had a discussion with them, let us know how quickly you'll be able to get something put together."***

"***I will certainly be mindful of your time constraints."*** Simon and Dennis looked relieved. Liana knew that John's request had caused them a lot of stress.

"Do you still have time to look at the DC investment report today?" Liana really hoped so since this would complete the full investment performance review process in respect of the recent plan year.

Simon wanted to get this review wrapped up as well. ***"Dennis, since you and I have enough going on right now, I would like to put last year's investment review behind us. I have time now to do this—how about you?"***

"Yes, let's do it," confirmed Dennis. ***"I'll be the minutes-taker today."***

See Appendix A
FSCO Investment Guidance Notes IGN-003 Statements of Investment Policies and Procedures (SIPPs) for Member-Directed Defined Contribution Plans
Study Guide Module 13, Appendix A, pages 43 to 47

Liana gave them each a package of materials and started right in. ***"Let's walk through this together. There are a couple of documents here: a copy of the Ontario pension regulator's Investment Guidance Notes and our investment performance report. This report is specific to the DC sections of your pension plans. But before we get into the report contents, especially given the conversation we just had about changing investment firms, a quick review of the guidance might be useful.***

"As we have discussed, these Guidance Notes have not yet been amended to reflect changes to Ontario's regulation about SIPPs for member-directed DC pension plans. Plans that only contain member-directed DC provisions are no longer required to prepare a SIPP, but your plans do still need a SIPP since they contain the legacy DB provisions. As a result, the guidance continues to apply to the Best Auto plans.

"Unlike some other provinces, Ontario continues to require that your pension plan SIPP contain content in respect of the DC section. You'll recall that we structured this section of your SIPP in accordance with the guidelines issued by the Ontario pension regulator. Despite the change in format from your earlier SIPP, the criteria that apply to the performance of your DC investment options have not been changed," Liana advised.

"It is good to revisit this context on a regular basis," commented Dennis as he scanned the Investment Guidance Notes, paying attention to the type of investment-related information to be included.