



The Certified Employee
Benefit Specialist® Program



RPA2 Managing Retirement Plans Part 2

Study Materials Update—May 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, 5, 6, 8 and 10 of the Study Guide (First Printing: December 2021).

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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 57-69, Benefits in Action #1—“What should you know about your DC plan investment options before enrolling?”: Several tables in the Benefits in Action #1 have been updated. To enhance your learning, responses to all Apply Your Knowledge questions in the Benefits in Action #1 have been provided. Remove the current pages 57 to 69 from your Study Guide and replace them with the new pages that follow.

Section 5–Contributions

As defined under the plan, member contributions are deducted from payroll.

Section 6–Investment Instructions

Choose funds from one or more of the following investment approaches. **Percentages must be in whole numbers and total 100%.**

I request Amalgamated Insurance Company to allocate contributions to the plan as follows. This instruction applies to all future contributions.

I’m Hands-Off–Target-Date Funds	Percentage Allocation
Pick the target-date fund with the maturity date that is closest to when you will need your money.	
AIC 2025 Target-Date Segregated Fund	%
AIC 2030 Target-Date Segregated Fund	%
AIC 2035 Target-Date Segregated Fund	%
AIC 2040 Target-Date Segregated Fund	%
AIC 2045 Target-Date Segregated Fund	%
AIC 2050 Target-Date Segregated Fund	%
AIC 2055 Target-Date Segregated Fund	%
I’m Hands-On	Percentage Allocation
Pick from any of the funds listed to build your own portfolio that matches your investment fund profile.	
AIC 1-Year Guaranteed Fund	%
AIC 3-Year Guaranteed Fund	%
AIC 5-Year Guaranteed Fund	%
AIC Money Market Segregated Fund	%
DFS BlackRock Universe Bond Segregated Fund	%
TDAM Canadian Bond Index Segregated Fund	%
Fiera Capital Canadian Equity Segregated Fund	%
Scotia Canadian Equity Index Segregated Fund	%
MFS U.S. Equity Segregated Fund	%
TDAM Hedged Synthetic U.S. Equity Index Segregated Fund	%
MFS International Equity Segregated Fund	%
TDAM International Equity Index Segregated Fund	%

Note: If the total percentage does not equal 100%, or if this information is not completed, Amalgamated Insurance Company reserves the right to invest the difference/total in the default fund chosen for the plan by your plan sponsor which, in the absence of a selection by your plan sponsor, will be the target-date fund that falls closest to your retirement date based on age 65, without going over.

The guaranteed maturity value reflects the fund's highest month-end unit value to date. While the fund is valued each business day and its unit value fluctuates, the maturity value is only affected if the unit value on the last day of each month exceeds the current maturity unit value. You will receive the maturity unit value only upon the fund's maturity date, providing you still own units in the fund on the maturity date. The maturity unit value is guaranteed by Amalgamated Insurance Company. If the units are sold prior to the fund's maturity date, the guarantee does not apply, and you will receive an amount determined by multiplying the number of units withdrawn by the current fund unit value.

Section 7—Your Authorization and Signature

I authorize Amalgamated Insurance Company, its agents and service providers to obtain, use and transmit to my plan sponsor, its agents and service providers my personal information for the purpose of plan administration.

I authorize Amalgamated Insurance Company, its agents and service providers to transmit my personal information to the advisor appointed by my plan sponsor, if any, or to my personal advisor for enabling in-plan advisory services.

Signature

Date (dd-mm-yyyy)

X _____

Section 8—Keeping Your Information Confidential

We are committed to keeping your information confidential. To find out about our Privacy Policy, visit our website at www.aic.ca, or to obtain information about our privacy practices, send a written request by e-mail to privacyofficer@aic or by mail to Privacy Officer, Amalgamated Insurance Company, Group Retirement Services, PO Box 2233, Station A, Victoria, BC, V8P 1A1.

Maureen took a few minutes to leaf through each section of the enrolment form.

“Most of these sections seem pretty clear,” Maureen said, emphasizing the word “most” and, at the same time, flipping back to Section 6: Investment Instructions. **“Section 6 looks like it is the tough one.”**

Danielle looked at Section 6 with her. **“Given where we are at in this process, I’m not surprised by your reaction. This is where you indicate your investment choices. It’s a bit premature to spend a lot of time on this section right now, since you haven’t yet decided on your investment approach or had much chance to use some of the information and tools available in the enrolment package or on the AIC member website. This list of investment options will make more sense once you have spent some time on those matters.”** Danielle continued. **“I know this part of the form looks a bit ‘busy.’ Completion of this section is really the final step in your enrolment and we are not at that point yet. Later we can review this section again.”**

“Meanwhile, there is more information in the guide to help you understand what investment approach is best for you.” Danielle pointed to the Investment Risk Questionnaire in the kit. **“If you decide to follow the ‘Hands-On’ investment approach, this questionnaire will give you a better understanding about how you feel about taking risk.”** Danielle gave Maureen a few minutes to scan both documents.

Maureen pointed to the last row in the exercise. **“What’s my investment risk profile?”**

“Good question,” said Danielle, pleased that Maureen had noticed this. **“As I said, it relates only to the ‘Hands-On’ approach. If you choose that approach, the Questionnaire will lead you to an investment risk profile for you to use as a guide in the selection of your investments.”**

Maureen continued going through the enrolment package, finding detailed descriptions of each of the investment options, factors that she should consider when making her choices, several scenarios including one of someone about her age, definitions of many of the terms she had already seen in the kit materials, and illustrations of risk and return. She picked up the Investment Risk Questionnaire again. It was exciting and overwhelming.

She pulled out one of the information sheets. This one was a long list of investment options called Fund Rates of Return that included a lot of financial data.

“Wow—There are about 25 choices on this list! I didn’t really expect to have to interpret this kind of financial information to make my decisions. Rates of return? Unit values? These terms are a mystery to me.” Maureen’s voice conveyed her increasing anxiety.

AIC | Amalgamated Insurance Company

Fund Rates of Return as of November 30, 2020

Fund	1 Month	YTD	1 Year	5 Year
AIC 2025 Target-Date Segregated Fund	-0.4	0.7	-0.8	2.9
AIC 2030 Target-Date Segregated Fund	-1.1	3.3	-3.5	4.5
AIC 2035 Target-Date Segregated Fund	-1.1	5.6	-2.2	6.1
AIC 2040 Target-Date Segregated Fund	-1.1	6.5	0.0	7.3
AIC 2045 Target-Date Segregated Fund	-1.0	6.1	-0.1	7.8
AIC 2050 Target-Date Segregated Fund	-1.3	4.2	-1.0	8.1
AIC 2055 Target-Date Segregated Fund	-1.9	4.6	-4.8	N/A
AIC Money Market Segregated Fund	0	-0.2	-0.2	0
DFS BlackRock Universe Bond Segregated Fund	-1.4	-0.6	-4.1	1.9
TDAM Canadian Bond Index Segregated Fund	-1.4	2.7	-4.1	1.5
Fiera Capital Canadian Equity Segregated Fund	0.7	1.9	1.6	6.0
Scotia Canadian Equity Index Segregated Fund	3.0	11.9	8.0	7.0
MFS U. S. Equity Segregated Fund	7.93	10.74	11.77	12.52
TDAM Hedged Synthetic U. S. Equity Index Segregated Fund	1.9	3.2	16.2	12.5
MFS International Equity Segregated Fund	-1.9	14.0	13.9	12.6
TDAM International Equity Index Segregated Fund	2.1	10.9	12.1	12.5

Guaranteed Fund Interest Rates (%) as of December 23, 2020

Fund	Rate
AIC 1-Year Guaranteed Fund	0.5500
AIC 3-Year Guaranteed Fund	0.9500
AIC 5-Year Guaranteed Fund	1.2500

Investment Fund Unit Values as of December 23, 2020

Fund	Unit Value
AIC 2025 Target-Date Segregated Fund	18.5149
AIC 2030 Target-Date Segregated Fund	21.3934
AIC 2035 Target-Date Segregated Fund	22.9484
AIC 2040 Target-Date Segregated Fund	24.1655
AIC 2045 Target-Date Segregated Fund	24.3589
AIC 2050 Target-Date Segregated Fund	19.8082
AIC 2055 Target-Date Segregated Fund	10.4964
AIC Money Market Segregated Fund	10.9981
DFS BlackRock Universe Bond Segregated Fund	15.6515
TDAM Canadian Bond Index Segregated Fund	15.0438
Fiera Capital Canadian Equity Segregated Fund	39.3338
Scotia Canadian Equity Index Segregated Fund	17.2089
MFS U. S. Equity Segregated Fund	34.434
TDAM Hedged Synthetic U. S. Equity Index Segregated Fund	19.6861
MFS International Equity Segregated Fund	10.6572
TDAM International Equity Index Segregated Fund	14.5840

Again, this reaction was something Danielle had seen with other employees and part of the reason for meeting with new plan members. She had confidence in AIC’s employee education materials; in fact, this was one of the reasons that BC Preferred chose to delegate that part of their administration activities to AIC.

“BC Preferred has an obligation to give our plan members information about all the investment choices included in our plan—Since you decide which ones to use, that only makes sense. In fact, giving you this information is required under BC’s pension legislation. We know that most of our employees don’t have a financial background, so don’t worry that you need to be an investment expert. Again, the reason that we structured the list of investment funds outlined in your enrolment package was to recognize different investment approaches. Let’s relate some of this financial data back to Section 6 again. Look at the options provided under the I’m Hands-Off approach.”

Maureen flipped to Section 6 of the enrolment form, looking for the I’m Hands-Off approach.

Section 6—Investment Instructions	
Choose funds from one or more of the following investment approaches. Percentages must be in whole numbers and total 100%.	
I request Amalgamated Insurance Company to allocate contributions to the plan as follows. This instruction applies to all future contributions.	
I’m Hands-Off—Target-Date Funds	Percentage Allocation
Pick the target-date fund with the maturity date that is closest to when you will need your money.	
AIC 2025 Target-Date Segregated Fund	%
AIC 2030 Target-Date Segregated Fund	%
AIC 2035 Target-Date Segregated Fund	%
AIC 2040 Target-Date Segregated Fund	%
AIC 2045 Target-Date Segregated Fund	%
AIC 2050 Target-Date Segregated Fund	%
AIC 2055 Target-Date Segregated Fund	%

“Now see how the Fund Rates of Return is providing additional financial information on the same set of investments?” Danielle drew a circle around the list of investments on the information sheet to show that they matched the set in Section 6.

AIC | Amalgamated Insurance Company

Fund Rates of Return as of November 30, 2020

Fund	1 Month	YTD	1 Year	5 Year
TDAM International Equity Index Fund	2.1	10.9	12.1	12.5
Fiera Capital Allocation Fund	0.7	1.9	1.6	6.0
B.G. Balanced Fund	1.9	5.8	8.3	9.1
DSF BlackRock Universe Fund	-1.4	-0.6	-4.1	1.9
AIC Money Market	0.0	-0.2	-0.2	0.0
TDAM Canadian Bond Index Fund	-1.4	2.7	-4.1	1.5
Scotia Equity Index Fund	3.0	11.9	8.0	7.0
TDAM Hedged U.S. Market Index Fund	1.9	3.2	16.2	12.5
MFS Canadian Research Equity Fund	2.5	7.4	8.3	8.9
AIC 2025 Target-Date Segregated Fund	-0.4	0.7	-0.8	2.9
AIC 2030 Target-Date Segregated Fund	-1.1	3.3	-3.5	4.5
AIC 2035 Target-Date Segregated Fund	-1.1	5.6	-2.2	6.1
AIC 2040 Target-Date Segregated Fund	-1.1	6.5	0.0	7.3
AIC 2045 Target-Date Segregated Fund	-1.0	6.1	-0.1	7.8
AIC 2050 Target-Date Segregated Fund	-1.3	4.2	-1.0	8.1
AIC 2055 Target-Date Segregated Fund	-1.9	4.6	-4.8	N/A
MFS International Equity Fund	-1.9	14.0	13.9	12.6

“Yes, I see the names match up,” Maureen said, *“but I still have no idea what the numbers mean.”*


“That’s why we like to meet at least three weeks ahead of enrolment. This package includes information prepared by AIC to help employees understand the investment basics and our plan’s investment choices. The first decision is the choice of your investment approach. Then will you be in a better position to identify the information in the package that is applicable to your chosen approach. You may or may not need to complete the Investment Risk Questionnaire, but you will want to go back and review everything and then complete the enrolment form. We don’t expect you to absorb all of this material at once—that’s why we have this introductory session. Perhaps that will put your mind at ease,” Danielle said reassuringly.

Maureen had been paying close attention to the information that Danielle was presenting. *“Thanks, Danielle. This is helping to put things into perspective for me. I know I have some work to do before I enroll.”*

Danielle summarized what they had discussed. **“You’ll need to read through the entire kit. Step one is to decide on the investment approach that is right for your plan investments, either “Hands-On” or “Hands-Off.” If you choose to be ‘Hands-Off,’ you can consider the list of funds shown under that approach. If instead your choice was “Hands-On,” you will go on to complete the investment questionnaire so that you have a guide for the framework of your own investment portfolio. At that point, you will be ready to review the information pages for each ‘hands-on’ investment option and choose your funds. Does that sound like a good plan of action to you?”**

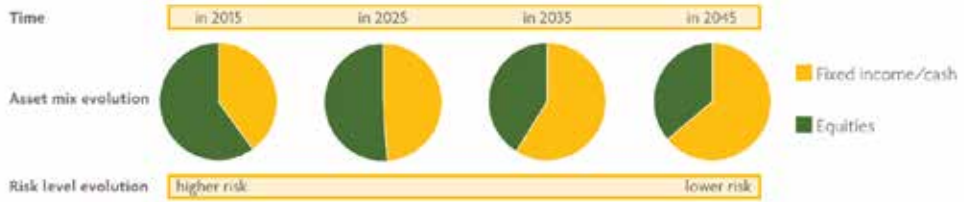
Maureen picked up the guide, Choosing My Investment Approach, once more. **“This example is much more useful than that page listing the returns of the 25 choices! I like how there are some real-life examples and the step-by-step process suggested for setting up my plan investments. Jan seems a lot like me.”**

Choosing My Investment Approach



I chose the Hands-Off Approach!

Jan is in her mid-twenties. She is busy starting her career and has a goal of buying a house within the next five years. Between her new job and her personal life, Jan doesn’t feel she has much time to think about investments. She simply wants to put money away for her future. She doesn’t want to actively manage her investment portfolio.



The chart illustrates the evolution of an investment portfolio over time. It features four pie charts representing the asset mix in 2015, 2025, 2035, and 2045. The legend indicates that green represents Equities and yellow represents Fixed income/cash. In 2015, the portfolio is predominantly green (Equities), indicating a higher risk level. As time progresses, the proportion of green decreases while the proportion of yellow increases, indicating a shift towards a lower risk portfolio by 2045.

Maureen laughed. **“I might even get to like this stuff! Later on, when I’ve been in the plan for a while, will I be able to make changes?”**

This was a more enthusiastic response than Danielle expected. **“I’m glad to hear that! Of course, you can make investment changes later—All investment decisions are yours to make. I think that the steps you plan to follow will help with your decisions.”** Maureen nodded.

Danielle finished the meeting. **“I would like to have your enrolment completed by April 24. Can we plan to get together again on the 23rd? You can bring your enrolment form back to me on that day. Then I can make sure AIC has all the necessary information about you so that your participation can start smoothly on May 1.”**



Apply Your Knowledge

As Canadian finance/human resources director, Danielle has a clear understanding of what she needs to communicate to employees before enrolling them in the DC pension plan. She also meets frequently with BC Preferred's pension advisor and is confident she knows the factors that were considered in designing their DC plan. Put on your plan sponsor hat and respond to these questions.

- 1. Explain why it is so important for BC Preferred to provide the investment information and decision-making tools to its employees before enrolling in the DC plan.** (Learning Outcome 1.16, Study Guide Module 1, p. 17; Reading A, Context for Employer-Sponsored Retirement Plan Fund Investment Management, Study Guide Module 1, pp. 35-36; Appendix 1, CAPSA Guideline No. 3, Guidelines for Capital Accumulation Plans (CAP Guidelines), Sections 1.3.1 The CAP Sponsor, Section 1.3.3 CAP Members, Section 3.1 General, Section 3.2 Investment Information, Section 3.3 Investment Decision-Making Tools, Section 4.1.1 Information on the Nature and Features of the CAP and Section 4.1.2 Outlining the Rights and Responsibilities of Cap Members, pp. 5, 9 and 11)
- 2. Amalgamated Insurance Company is BC Preferred's fund holder. Identify the protection this affords to DC plan members like Maureen.** (Learning Outcome 1.10, Study Guide Module 1, p. 14; Reading C, CAPSA Guideline No. 5, Guideline on Fund Holder Arrangements, Study Guide Module 1, Section 2.4 Responsibilities of the Fundholder, Section 2.5 The Custodian and Section 2.5.1 Responsibilities of the Custodian, pp. 66-67)
- 3. Identify the key reasons BC Preferred has close to 25 investment options included in its DC pension plan.** (Appendix 1, CAPSA Guideline No. 3, Guidelines for Capital Accumulation Plans (CAP Guidelines), Section 2.2 Investment Options, Section 3.2 Investment Information and Section 4.2.1 Investment Funds, pp. 7-9 and 11)



Test Your Knowledge

Danielle is looking forward to meeting with Maureen to finalize her pension plan enrolment. Again, they meet in Danielle’s office. Maureen looks somewhat tentative, a surprise to Danielle given the positive tone of their last meeting. However, Danielle does know that Maureen has been absent from work for some of the period since they last met.

Check the box with the key terms you find discussed during Danielle and Maureen’s meeting.

- Enrolment form
- Investment options
- Investment advice
- Default investment option
- Target-retirement-date funds
- Maturity date
- Diversified investment portfolios
- Capital accumulation plans (CAPs)
- CAP Guidelines
- Qualified advisor

Danielle thought Maureen looked a bit distracted this morning. ***“Thanks for coming in this morning, Maureen. Have you had a chance to review the pension plan in more detail?”***

Maureen seemed a bit hesitant. ***“I have completed the enrolment form with all of my personal information. I had every intention of getting through the enrolment kit so that I could make a plan for my pension plan investments but, as you may know, I’ve had to be off work since we last met. I haven’t even been able to decide upon my investment approach, and so I don’t think I’ll be able to provide investment instructions for my account before May 1.”*** Maureen looked quite apologetic as she gave Danielle her partially completed form.

Danielle now understood Maureen’s apparent discomfort with their meeting. ***“Maureen, please don’t worry about the delay—Everyone has unexpected events in their lives that interfere with their normal activities.”***

Maureen looked relieved. ***“What is the best course of action for me at this point? Can you give me advice about my investments? You seem to have a good understanding of this topic.”***

Danielle was quick to take Maureen back to the conversation of their first meeting. She was sympathetic but cognizant of her role. ***“Remember, this plan is like a joint venture. Both BC Preferred as the employer and you as the plan member have specific responsibilities under the plan.”*** Danielle did a quick recap of Maureen’s responsibilities.

Plan members are responsible for:

- Making investment decisions within the plan and using the information and decision-making tools made available to assist them in making those decisions.

For example:

- How much to contribute
- How much to contribute to any particular investment option
- Whether an investment in a particular option should be moved to another option.

“So where will my pension contributions actually go if I haven’t determined my investment instructions? Will this delay you sending them in to the pension plan?” asked Maureen, clearly anxious.

“Not at all.” Danielle quickly continued, ***“We have a responsibility to get your pension contributions to AIC as our fund holder. However, there is a device within our pension plan to help with your situation. It’s called a default investment option. You may have seen some reference to this in the enrolment kit.”***

Danielle opened the enrolment form and pointed out the reference to the default fund under Section 6: Investment Instructions. **“If a new plan member doesn’t make a formal investment choice, for whatever reason, the plan contributions are directed to the default investment option.”**

“Default?” asked Maureen anxiously. **“Is the default option as good as the other options?”**

Danielle explained, **“BC Preferred considered many factors when choosing the default investment option for the plan. We follow a set of ‘best practices’ established by the Canadian retirement plan industry when making our decisions around the retirement plan, including the choice of the default investment option.”**

CAPSA Guideline No. 3

Factors considered when choosing investment options, including any default option, are:

- Purpose of the CAP
- Number of investment options to be made available
- Fees associated with the investment options
- BC Preferred’s periodic review of investment options
- Diversity and demographics of members
- Degree of diversification among the investment options to be made available to members
- Liquidity of the investment options
- Level of risk associated with the investment options.

Danielle continued, **“Our default investment option is one of the funds offered to ‘Hands-Off’ investors. Specifically, the default fund is the target-date fund with a maturity date closest to, but in advance of, your 65th birthday. Using your enrolment form, AIC, as our recordkeeper, will look at your birth date and set up instructions for any of your contributions and those made by BC Preferred to be invested in that fund. You’ll see more information about how target-retirement-date funds work when you have a chance to review the enrolment kit.”**

Maureen was starting to feel comfortable with the information. It helped her to know that industry standards were used by BC

Preferred when choosing the plan’s default, and other, investment options. She nodded in relief.

Danielle wanted to reassure Maureen that she would still be in control of her investments, despite using the default fund for a short while until her own plan is in place. **“I can give you a quick description—Target-date funds are diversified investment portfolios, managed by professional investment managers. Each fund has a maturity date, which assumes that investors need to use their investment, likely because of retirement, starting from that date.”**

Danielle continued. *“As we discussed when we met the last time, you control your investments in the plan. So, once you get through your review and decide on your investment approach and the specific investments you want to use, you can contact AIC to set up your chosen investment instructions and make any transfer of funds that may have been invested in the default fund into your chosen investments.”*

Maureen looked relieved. *“I guess I didn’t understand what the default option was. The default option will be satisfactory for me at this point. I do want some investment advice though—What do you think I should do when I change my options?”*

Danielle went on, *“First, let’s define ‘advice’ compared to ‘information.’ I’ve found that often our new employees use these two words interchangeably. I’d like to suggest that you go forward with your plan to review that package of material. If you still need more information about our how our plan works, I’m confident that AIC will be able to answer any questions that you may have. And I may be able to help here also.*

“Of course, you may still need some investment ‘advice,’ which is a bit different than ‘information.’ It is not appropriate for me to offer that advice because I am not a qualified personal financial planner, but I can give you a list of credentials that you can use in a search for a qualified advisor. You may find that you already know someone who holds the appropriate credentials. If so, I recommend that you meet with that person to review our plan information. The advisor will likely need more information from you about your personal finances, existing savings and goals to do this.” Danielle hoped that this could wrap up the current meeting. *“Will this approach work for you, Maureen?”*

Maureen nodded in agreement. Danielle took one more opportunity to reinforce Maureen’s role. *“If we go back to the original plan you and I discussed, I think you still intend to review the full enrolment package, either the copy I gave you or on AIC’s website. Is that still your intent?”* Maureen nodded.

Maureen appreciated all the information. *“Yes, that is my plan. Thanks for your explanation, Danielle. I will certainly get going on my review of the material. I’ll let you know if I need the list of credentials once I get further along in that process. Meanwhile, at least you have my form. My enrolment can move forward, and I understand what will happen with contributions in the short term. Now, back to work!”*



Answers to Apply Your Knowledge

As Canadian finance/human resources director, Danielle has a clear understanding of what she needs to communicate to employees before enrolling them in the DC pension plan. She also meets frequently with BC Preferred’s pension advisor and is confident she knows the factors that were considered in designing their DC plan. Put on your plan sponsor hat and respond to these questions.

- 1. Explain why it is so important for BC Preferred to provide the investment information and decision-making tools to its employees before enrolling in the DC plan.** (Learning Outcome 1.16, Study Guide Module 1, p. 17; Reading A, Context for Employer-Sponsored Retirement Plan Fund Investment Management, Study Guide Module 1, pp. 35-36; Appendix 1, CAPSA Guideline No. 3, Guidelines for Capital Accumulation Plans (CAP Guidelines), Section 1.3.1 The CAP Sponsor, Section 1.3.3 CAP Members, Section 3.1 General, Section 3.2 Investment Information, Section 3.3 Investment Decision-Making Tools, Section 4.1.1 Information on the Nature and Features of the CAP, and Section 4.1.2 Outlining the Rights and Responsibilities of Cap Members, pp. 5, 9 and 11)

This importance of providing investment information and decision-making tools to DC plan members relates to the basic nature of DC plans—Members bear all investment risk as the ultimate retirement income provided by their DC plan accounts depends heavily on the level of investment growth achieved by those accounts. Members direct the investments in capital accumulation plans (CAPs), and therefore need to be provided with certain information and access to tools that may help them establish their investment strategy.

Although members bear the investment risk, plan sponsors bear operational risk through their responsibility to comply with the requirements of pension standards legislation and industry “best practices” (e.g., CAP Guidelines). Plan sponsors are responsible for providing members with investment information and decision-making tools.

- 2. Amalgamated Insurance Company is BC Preferred's fund holder. Identify the protection this affords to DC plan members like Maureen.** (Learning Outcome 1.10, Study Guide Module 1, p. 14; Reading C, CAPSA Guideline No. 5, Guideline on Fund Holder Arrangements, Study Guide Module 1, Section 2.4 Responsibilities of the Fundholder, Section 2.5 The Custodian and Section 2.5.1 Responsibilities of the Custodian, pp. 66-67)

Good governance includes maintaining the separation of plan assets through a fund-holder agreement. The two basic types of fund holder arrangements are trusts and insurance contracts. While these are two different entities from the perspective of the regulators, the plan sponsor is expected to follow the same principles, including:

- (a) Holding assets exclusively for the pension plan
- (b) Holding assets separate and apart from the employer's assets
- (c) Holding assets separate and apart from the fund holder's assets, except as permitted by legislation
- (d) Investing assets in accordance with the plan's investment policies
- (e) Acting in a fiduciary role regarding the pension fund
- (f) Ensuring that the roles, duties, responsibilities and obligations of all parties providing services in respect of the pension fund are defined and understood.

Fund holder adherence to these principles ensures that BC Preferred is unable to access funds that support the pension plan and ultimately provides protection to the plan members that the pension fund will be available to provide plan benefits when needed.

3. Identify the key reasons BC Preferred has close to 25 investment options included in its DC pension plan. (Appendix 1, CAPSA Guideline No. 3, Guidelines for Capital Accumulation Plans (CAP Guidelines), Section 2.2 Investment Options, Section 3.2 Investment Information and Section 4.2.1 Investment Funds, pp. 7-9 and 11)

A CAP sponsor is responsible for choosing the plan’s available investment options, and plan members are responsible for making choices among those options. The CAP Guidelines outline many factors to be considered by the CAP sponsor when choosing investment options to make available. These include the purpose of the CAP and the diversity of the employee group participating in the CAP.

BC Preferred employs two distinct groups of employees—experienced, skilled staff for salaried positions and younger, less experienced and less skilled staff for its production positions. Given these demographics, it is reasonable to assume that new salaried staff typically have already participated in some type of retirement savings program and have some investment knowledge, while their new hourly staff are much less “investment savvy.” The list of investment options has been tailored to reflect these two levels of investment knowledge.

Although there are close to 25 distinct funds in their lineup, eight represent a “suite” of target retirement date funds. These funds are intended to be attractive to employees who do not feel confident making investment decisions and prefer professional managers to decide on the mix of investments to hold. For employees who may have some investment experience, a choice is provided between active and passive investment management (i.e., indexed funds).

Study Guide Module 5

Benefits in Action #2—“How do we decide on the assets to include in our pension fund?” has updated page references.

Go to page 58, Remove what is ~~crossed-out~~ and make the changes indicated in **bold**.

2. Explain how a review of *CAPSA Guideline No. 5: Guideline on Fund Holder Arrangements* along with a review of the AIC contract will help Shawna execute her role on the Management Committee. (Reading C, *CAPSA Guideline No. 5: Guideline on Fund Holder Arrangements*, Study Guide Module 1, **Section 2.3.1 Administrator Responsibilities Regarding the Pension Fund and Fund Holder, Section 2.3.2 Delegation of Duties by the Administrator, Section 2.3.3 Governance Matters Regarding the Pension Fund**, pp. 64-65)
3. Explain why the asset allocation for the DC section of the fund is different than for the DB section. (Appendix 1, *CAPSA Guideline No. 3: Guidelines for Capital Accumulation Plans* (CAP Guidelines), Sections 2.2.1 **Selecting Investment Options** and 2.2.2 **Selecting Investment Funds**, pp. 7-8)

Pages 63-65, Benefits in Action #2—“How do we decide on the assets to include in our pension fund?”: To enhance your learning, responses to all Apply Your Knowledge questions in the Benefits in Action #2 have been provided. Add the new pages that follow to your Study Guide.



Answers to Apply Your Knowledge

Michael, CEO of JHJ Industries, wants to ensure that Shawna, corporate accountant, has a solid understanding of the purpose and current state of both the defined benefit (DB) and defined contribution (DC) sections of the pension plan. Michael believes that Shawna needs a good foundation so that she can contribute to discussions of assets to be included in the pension fund. Put on your pension advisor hat and respond to these questions.

- 1. Outline information that Shawna was able to glean from her conversation with Michael, the SIPP, and the DB and DC financial statements that will assist her in her role as a Management Committee member.** (Learning Outcomes 1.10, 1.14 and 1.15, Study Guide Module 1, pp. 14 and 16; Reading A, Context for Employer-Sponsored Retirement Plan Fund Investment Management, Study Guide Module 1, pp. 29-41; Reading C, *CAPSA Guideline No. 5: Guideline on Fund Holder Arrangements*, Study Guide Module 1, pp. 59-72; Benefits in Action 2, Study Guide Module 5, pp. 50-51)

Michael provided considerable insight into the general investment beliefs of JHL’s president and how they impacted the DB and DC sections of the plan. As the plan sponsor, the president is a significant factor for overall plan financial management decisions, including setting investment objectives and constraints for the plan fund. The president has strong opinions on the value of active management that are reflected in JHJ’s investment policies and procedures on the DB side.

The SIPP outlines policies and parameters for AIC, the custodian/trustee, to follow when investing funds in either the DB or DC portfolio. These include the investment objective and asset mix policy for the DB section of the pension fund as well as the general investment principles providing both a self-managed approach and a managed approach and criteria for selection of the options for the DC section of the pension fund.

As custodian/trustee, AIC shows how those policies have been implemented through DB and DC financial statements. The statements provide a snapshot of the current asset mix—asset classes, weightings of each class and the various securities that comprise each asset class in the DB plan and in the DC plan—the “complete portfolio.” An analysis of what is being done, as reflected in each of the financial statements, against the investment policy, as reflected in the SIPP, would indicate whether AIC was in compliance with its contract.

2. Explain how a review of CAPSA Guideline No. 5: Guideline on Fund Holder Arrangements along with a review of the AIC contract will help Shawna execute her role on the Management Committee. (Reading C, *CAPSA Guideline No. 5: Guideline on Fund Holder Arrangements*, Study Guide Module 1, Section 2.3.1 Administrator Responsibilities Regarding the Pension Fund and Fund Holder, Section 2.3.2 Delegation of Duties by the Administrator, Section 2.3.3 Governance Matters Regarding the Pension Fund, pp. 64-65)

The SIPP indicates that the Management Committee is responsible for:

- (a) Selecting the investments for the fund in accordance with the terms of the agreement between JHJ and the custodian/trustee
- (b) Monitoring the custodian/trustee and managers of the investment alternatives relative to the statement of investment policies and procedures (SIPP). This includes ensuring they continue to meet the quantitative and qualitative criteria outlined in the SIPP.
- (c) Obtaining from the custodian/trustee current versions of investment policy statements issued by the managers of each investment choice made available in the plan.

Shawna will benefit from a review of CAPSA Guideline No. 5, Guideline on Fund Holder Arrangements because it outlines who can be the fund holder as well as the responsibilities of the employer, plan sponsor and plan administrator with regard to custodian/trustee arrangements. It also outlines the scope of compliance criteria used by a regulator when it examines a pension plan's fund holder arrangements, including documentation regarding the type of arrangements and confirmation that there are appropriate documents to support the arrangement in place.

Shawna will benefit from reviewing the contract between JHJ Industries Ltd. and its custodian/trustee, AIC, because it will help her to understand the terms of the arrangement between the two companies. It will identify the legal structure of the pension plan investments (e.g., the types of investments available under the AIC contract), confirm whether the investment options follow the terms of the SIPP and identify the costs associated with the services being provided by AIC.

An understanding of both the Guideline compliance criteria and AIC's contractual arrangements would be key to ensuring JHJ was meeting its plan sponsor obligations with regard to AIC.

3. Explain why the asset allocation for the DC section of the fund is different than for the DB section. (Appendix 1, *CAPSA Guideline No. 3: Guidelines for Capital Accumulation Plans* (CAP Guidelines), Sections 2.2.1 Selecting Investment Options and 2.2.2 Selecting Investment Funds, pp. 7-8)

The asset allocation in the DB component is consistent with the JHJ’s president’s general investment beliefs about the cost/benefit of a passive vs. active investment management approach. The current asset allocation also reflects the frozen status of the DB section of the plan. This fund is being managed to provide the static pension obligations. Equity and bond investments offer liability matching (i.e., provide a source of income in the form of dividends and bond interest payments that can be used to meet pension payments as they become due).

CAP Guidelines call for plan sponsors to take into consideration, among other things, the diversity and demographics of CAP members. The SIPP contains a statement identifying that not all plan members may want to manage their own investments in the DC section. As such, JHJ has chosen some investment options that require members to actively manage their CAP investments as well as another set of options that appear to be “managed” on the members’ behalf (i.e., the balanced funds that are managed to reduce investment risk—aka, target retirement date funds). The second set of options is included to provide professional fund management for those members who do not wish to actively manage their DC account. For managers who want to actively manage their account, JHJ recognizes that there may be diversity within that group of members.

Study Guide Module 6

Benefits in Action #3—“How does behavioural finance impact DB plan investment policy setting?” has updated page references.

Go to page 43, Remove what is ~~crossed-out~~ and make the changes are indicated in **bold**.

1. Describe the efficient market hypothesis (EMH) that Martine refers to and the implications for the Academy’s pension fund if the committee members accept that the semistrong form of EMH is valid. (Learning Outcomes 1.1 and 1.4, Study Guide Module 6, pp. 7-8; Text, p. 377; Reading A, Text Commentary, Study Guide Module 6, pp. ~~24 and 26-27~~ **27 and 30-31**)

2. Diane’s comments show that she does not believe that EMH is valid. Describe some of the reasons she may hold this opinion and the beliefs that may underlie the Academy’s pension fund managers’ actions. (Learning Outcome 3.1, Study Guide Module 6, p. ~~42~~ **13**; **Learning Outcome 5.4, Study Guide Module 6, p. 20**; **Reading A, Text Commentary, Study Guide Module 6, pp. 35-36**; Text, pp. 378, **388** and 394; Text Glossary, pp. GL-1 and GL-2)

3. Interestingly, both Diane’s and Hadads’ comments appear to correspond with the types of investor bias that behavioural economists attribute to “irrational” investors. Identify examples of comments they have made that suggest investor bias. (Learning Outcomes 3.1-3.5, Study Guide Module 6, pp. 12-13; Text, pp. ~~378-379~~ **Learning Outcomes 3.2-3.8, Study Guide Module 6, pp. 13-15**; Text, pp. **378-381**)

Pages 49-52, Benefits in Action #3—“How does behavioural finance impact DB plan investment policy setting?”: To enhance your learning, responses to all Apply Your Knowledge questions in the Benefits in Action #3 have been provided. Remove the current page 49 from your Study Guide and replace it with the new pages that follow.

"Great, I'm glad you are more comfortable now. It sounds to me like we have completed our review of our manager structure, unless there are any other comments?" David looked around the table, but there were no further comments. *"All right, I've been keeping notes, so I will add them to the minutes of our last meeting. Can we adjourn?"*

"David, I have a couple of suggestions about how we can make our processes more transparent," Martine spoke up. Here we go, thought Diane.

Martine made her recommendations. *"If our SIPP had included some of the points you mentioned earlier, I would have understood how we decided on our current manager structure. Could some detail be added to the SIPP around our intent to revisit the active/passive approach on a net-of-fee basis after a full market cycle which, as you said, would likely be a five- to six-year time frame?"*

Hadad interjected, *"I think this is a great idea; it would have informed me to a greater degree as well."*

As chair, David asked, *"Diane, what do you think about adding this additional information?"*

Diane said, *"If adding the additional information helps to make our processes more transparent, then I'm all for it."*

"It's agreed then. I'll review the SIPP and add the commentary we all agreed on. Thanks, everyone! Now, let's adjourn."



Answers to Apply Your Knowledge

David wants the Retirement Plan Committee to be fully informed for the follow-up discussion and has asked the Academy's pension consultant to attend the next meeting to address any questions that might surface. He has briefed her on the issue raised; she has anticipated some of the questions she may be asked and behavioural factors that might be at play. Put on your pension consultant hat and respond to these questions.

- 1. Describe the efficient market hypothesis (EMH) that Martine refers to and the implications for the Academy's pension fund if the committee members accept that the semistrong form of EMH is valid.** (Learning Outcomes 1.1 and 1.4, Study Guide Module 6, pp. 7-8; Text, p. 377; Reading A, Text Commentary, Study Guide Module 6, pp. 27 and 30-31)

The EMH asserts that the prices of securities available to investors fully reflect available information about the security itself. This then implies active traders will find it difficult to outperform passive strategies such as holding market indices (i.e., it is impossible for managers to “beat the market”). The semistrong form of EMH states that all publicly available information relevant to the prospects of a firm must be already reflected in the stock price for that firm.

There is debate around the validity of the EMH, and it is difficult to devise measures of the intrinsic value of a security and tests for market efficiency. Two types of market efficiency tests exist: (a) examination of anomalies literature that identifies strategies that would have provided superior risk-adjusted returns and (b) examination of whether professional managers have been able to beat the market. Neither class of tests has proven fully conclusive.

If the committee members accept that the semistrong form of the EMH is valid, they should then also accept that market anomalies can exist, but that they are fleeting and tend to disappear when discovered. Anomalies are then not easily used as the basis for a trading strategy because transaction costs render them unprofitable. Hence, a passive approach to investing the Academy's pension monies may be more appropriate (i.e., more prudent) over the long-term operation of the pension plan.

2. Diane's comments show that she does not believe that EMH is valid. Describe some of the reasons she may hold this opinion and the beliefs that may underlie the Academy's pension fund managers' actions. (Learning Outcome 3.1, Study Guide Module 6, p. 13; Learning Outcome 5.4, Study Guide Module 6, p. 20; Reading A, Text Commentary, Study Guide Module 6, pp. 35-36; Text, pp. 378, 388 and 394; Text Glossary, pp. GL-1 and GL-2)

Diane sounds as if she is a proponent of technical analysis. She mentions that their fund managers have provided analysis that supports the idea of the exploitation of market anomalies.

The EMH assumes that rational, profit-seeking investors will act on new information so quickly that prices will nearly always reflect all publicly available information. However, there are plenty of examples of irrational purchase and sale at prices that are not efficient—often caused by traders lacking information whose orders are exploited by more observant participants. These occasions may be infrequent or of low value, but their existence supports the case for occasional market inefficiency that can be exploited by those following charts (i.e., technical analysts).

Technical analysts believe that security prices eventually “close in” on their fundamental or intrinsic values, that market fundamentals can be affected by irrational factors and that it is possible to identify trends before the prices have reached their intrinsic values. It is then possible to exploit the knowledge of the price trends. The Academy's fund managers may be following these beliefs.

3. Interestingly, both Diane’s and Hadads’ comments appear to correspond with the types of investor bias that behavioural economists attribute to “irrational” investors. Identify examples of comments they have made that suggest investor bias. (Learning Outcomes 3.2-3.8, Study Guide Module 6, pp. 13-15; Text, pp. 378-381)

“We spent a lot of time considering the range of specialty managers that were available to us.” This may be an example of a “forecasting error” in the sense that too much importance is given to the time expended in the selection process and to the managers’ respective historical performance at the time of their selection

“I’d hate to see us make a change now that things seem to be going well.” This may be an expression of “overconfidence” (i.e., we made a great decision since things are going well.) Also, this could be “conservatism bias” in that there may be new evidence that shows passive management may be a benefit, but the preexisting belief is in active management.

“And also, if active management isn’t the ‘best’ approach, why do so many pension funds, and our endowment fund, use it?” This may be an example of “regret avoidance.” Individuals feel more regret around decisions that are “unconventional” than investors who make decisions that are more commonly followed. Changing away from the frequently used active management approach may be seen as an unconventional choice. It’s also an expression of “overconfidence” in their past decision.

“My personal financial advisor just told me about a couple of fund managers who have recently had fantastic returns when compared to the average return of the stock market in Canada.” This may be an example of “sample size neglect/representativeness.” One individual’s experience is not valid for the overall “universe” under consideration—pension plan investment management. It may also be an example of “forecasting error” as it is a recent anecdotal comment.

Study Guide Module 8

Benefits in Action #4—“How can we use managed funds to meet tests of investment prudence?” has updated page references.

Go to page 44, Remove what is ~~crossed-out~~ and make the changes are indicated in **bold**.

1. Describe the types of investment alternatives that Alena will be comparing when she summarizes the setup of the current PPP group RRSPs. Outline any differences between the type of investment lineup that may exist between the two plans. (Learning Outcomes 3.3 and 3.4, Study Guide Module 8, pp. ~~19-21~~ **18-19**; Reading A, Text Commentary, Study Guide Module 8, pp. 32-34)
2. Outline information regarding commingled investment funds, called “pooled funds,” that Alena might include in her review of investment approaches. (Learning Outcomes 3.1 and 3.2, Study Guide Module 8, p. ~~48~~ **17**; Text, p. 119; Reading A, Text Commentary, Study Guide Module 8, pp. 32-33)
3. Describe the advantages that managed funds can offer to members of the PPP group RRSPs. (Learning Outcome 1.2, Study Guide Module 8, p. ~~9~~ **8**; Text, pp. 116-117)

Pages 49-50, Benefits in Action #4—“How can we use managed funds to meet tests of investment prudence?”: To enhance your learning, responses to all Apply Your Knowledge questions in the Benefits in Action #4 have been provided. Add the new pages that follow to your Study Guide.



Answers to Apply Your Knowledge

Alena is preparing for her next meeting with Anthony. She wants to ensure she has a solid understanding of what is included in both group RRSPs provided by PPP to include in her comparison of alternate investment approaches for a harmonized plan. This information will help Marjorie and Anthony to narrow the scope of their request for proposal for a harmonized plan. Put on your pension advisor hat and respond to these questions.

- 1. Describe the types of investment alternatives that Alena will be comparing when she summarizes the setup of the current PPP group RRSPs. Outline any differences between the type of investment lineup that may exist between the two plans.** (Learning Outcomes 3.3 and 3.4, Study Guide Module 8, pp. 18-19; Reading A, Text Commentary, Study Guide Module 8, pp. 32-34)

The group RRSP operating at the original PPP location uses an insurance company as recordkeeper and custodian/trustee. As a result, the investment options for that plan will be insurance company “pooled segregated funds.” Pooled segregated funds combine the investments of the insurers’ clients and their employees. Distinct pooled segregated funds have been established to invest in different asset classes and geographical locations. The investment option lineup for this PPP group RRSP may include funds that are managed by the insurer’s own investment operations as well as funds managed by institutional pension fund managers and mutual funds. PPP plan members will buy units of the selected pooled fund(s), and investment growth/losses and expenses are reflected in the unit value of the particular pooled fund. The pooled funds will operate on a no-load basis.

The group RRSP operating at the unionized PPP location uses a mutual fund company as recordkeeper and custodian/trustee. As a result, the investment options for that plan will be mutual funds. Mutual funds are operated by financial intermediaries that pool the assets of individual investors. Distinct mutual funds may be available in different asset classes and geographic locations. The investment option lineup for this PPP group RRSP will be funds managed by the particular mutual fund company that was chosen as the PPP service provider. PPP plan members will buy shares of the chosen mutual fund(s), and investment growth/losses and expenses are reflected in the net asset value (NAV) of the mutual fund. The funds may operate on either a load or a no-load basis.

2. Outline information regarding commingled investment funds, called “pooled funds,” that Alena might include in her review of investment approaches.

(Learning Outcomes 3.1 and 3.2, Study Guide Module 8, p. 17; Text, p. 119; Reading A, Text Commentary, Study Guide Module 8, pp. 32-33)

Institutional pension fund managers operate commingled investment funds called pooled funds. These managers may specialize in particular asset classes (e.g., foreign equities) or offer a range of pooled funds in different asset classes and geographical locations. Pooled funds operated by institutional fund managers have long focused on DB pension plans, but those managers have also successfully marketed their funds to insurers for inclusion in their pooled segregated fund offerings.

3. Describe the advantages that managed funds can offer to members of the PPP group RRSPs. (Learning Outcome 1.2, Study Guide Module 8, p. 8; Text, pp. 116-117)

The general advantage of managed funds is the ability for smaller investors to get access to professionally managed investments at a reasonable cost. PPP does not have (nor wish to develop) investment management capabilities in-house. Marjorie’s focus is on satisfying the diverse needs of her customers on a basis that also is competitive from a price perspective. Managed funds can pool the investments of the two group RRSPs with those of other similarly minded investors (i.e., individuals and retirement plan members) to gain economies of scale associated with large managed funds. Because there are many different types of managed funds (i.e., operating in the fixed income, equity and specialty investment markets), their use will allow PPP to structure their group RRSPs to offer members a diverse range of investments with professional management of each fund.

Study Guide Module 10

Ontario has removed the requirement for Statements of Investment Policy & Procedures for plans that operate as 100% member-directed defined contribution plans. As a result:

Go to Page 1, paragraph 3 in your Study Guide: Delete what is crossed out:

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. ~~A separate Investment Guidance Note issued by Ontario pension regulator FSCO (the predecessor of FSRA) provides specific guidance for administrators of Ontario “member-choice” DC pension plans.~~ 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.

Go to Page 2, in your Study Guide:

Delete Reading C, Financial Services Commission of Ontario Guidance Note IGN-003, from the Assigned Reading list for this module.

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~~

Remove Pages 51 to 55 from your Study Guide.

Go to Page 4, Outline of Knowledge in your Study Guide: Remove what is ~~crossed out~~ and make the changes indicated in **bold**.

- C. Prudent investment activities for member choice DC pension plans and non-pension plans
 - 1. SIPP requirements for member choice DC pension plans
 - 2. ~~Expected content relating to DC provisions~~
 - 3. Considerations in selecting and monitoring investment options**
 - 4. Best practices for non-pension plans (Capital Accumulation Plans (CAPs))**

Go to Page 19, Learning Outcome 4.1 in your Study Guide: Delete the existing question for Learning Outcome 4.1, replacing it with the following:

4.1 Describe the requirements of pension standards legislation in the area of investment policies for member choice DC pension plans. (Reading A, Study Guide Module 10, p. 25)

Most pension standards legislation in Canada exempts member-choice DC pension plans from the requirement of preparing a SIPP for the plan. Effective 2022, only New Brunswick pension standards legislation requires that sponsors of member choice DC pension plans prepare and register a SIPP with the provincial pension regulator.

Go to Page 25, Reading A, Investment Policy Statement Requirements in your Study Guide: Remove what is ~~crossed-out~~ and make the changes indicated in **bold**.

With respect to the various Canadian jurisdictions with pension standards legislation, note that:

1. This same SIPP content is required for pension plans registered in jurisdictions that have adopted or are subject to the federal PBSA investment rules (Alberta, British Columbia, Manitoba, Newfoundland and Labrador, Nova Scotia, Ontario, Prince Edward Island, Saskatchewan).
2. ~~In addition to the SIPP content required under the federal investment rules, Ontario alone also requires the inclusion of information that identifies whether environmental, social and governance (ESG) factors have been considered in the development of the investment policies. If ESG factors have been considered, the SIPP must also describe how those factors have been taken into consideration. Ontario also requires that the SIPP identify the target asset allocation for each category of investment included in the plan's list of investments.~~
2. **Most pension standards legislation in Canada exempts member-choice DC pension plans from the requirement of preparing a SIPP for the plan. Effective 2022, only New Brunswick pension standards legislation requires that sponsors of member-choice DC pension plans prepare and file a SIPP with the provincial pension regulator.**