

# Chapter 5

## Department of Finance

### Pension Plan Governance

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# Department of Finance Pension Plan Governance

## Background

5.1 There are eleven provincially sponsored pension plans with approximately 40,700 employees contributing to these plans and approximately 16,800 pensioners receiving benefits. Total pension benefits paid in the plans' most recent fiscal year totalled \$252.2 million. During that year employees contributed \$94.4 million to the plans and taxpayers contributed \$241.8 million. At year end, total net assets of the pension plans were in excess of \$7 billion.

5.2 Our Office is currently the financial auditor for six of these plans, and in this capacity we have become quite familiar with their operations. In addition we review accounting and financial disclosure issues for all plans in connection with our financial audit of the Province of New Brunswick.

5.3 Due to the size of the annual contribution of taxpayers' money, the large number of government employees and pensioners depending on the plans for their retirement security and the overall size of the pension operation, we decided that we should undertake a review that is much broader in scope than we have been doing as financial auditors.

5.4 A review of this nature could encompass many aspects of the pension operation. We believed the most appropriate starting point should encompass governance and accountability. Governance can be defined as the process and structure used to direct and manage the pension operation with the objective of achieving the stated mission or objective. Accountability on the other hand is defined as the obligation to answer for authority and responsibility that has been conferred.

5.5 We have had experience over the past three years in conducting work on governance and accountability. In 1997 we commented on governance and accountability issues at the Atlantic Lottery Corporation Inc. In 1998 we examined similar issues at the Regional Hospital Corporations and last year we looked at the New Brunswick Liquor Corporation.

5.6 Our interest in the governance and accountability of the Province's pension plans was also increased by what has been happening on the national scene.

**5.7** In November 1997 the Senate Standing Committee on Banking, Trade and Commerce (Committee) began hearings on the role and governance practices of institutional investors in Canada. Institutional investors included public and private sector pension plans.

**5.8** What the Committee heard during these hearings were comments such as the following:

*“...the governance practices ...of large public-sector pensions should be examined with purpose of building guidelines for improvements....In general there are few well-governed boards.”*

*“...there is a great deal of confusion about what [pension] decisions get made in what capacity, about who is affected by these decisions, about what constitutes prudence, and about what the mission of a pension fund is in the first place.”*

*“There is a long way to go before one can say that all pension plans are well governed.”*

**5.9** One of the submissions presented at the hearings cited a major study involving seventy-nine major U.S. and Canadian pension funds and a Dutch pension fund. The study stated: “We were able to find a statistically significant link between organizational performance and organizational design. Interestingly, and more specifically, we found the most important driver of organization performance .... to be the quality of the board of governing fiduciaries.”

**5.10** The hearings culminated in November 1998 with the issuance of a report called *The Governance Practices of Institutional Investors*. This report made two recommendations relevant to pension plans:

- that the trustees of each pension plan in Canada adopt one of Pension Investment Association of Canada (PIAC), Association of Canadian Pension Management (ACPM), or Office of the Superintendent of Financial Institutions of Canada (OSFI) governance guidelines; and
- that the trustees of each pension plan in Canada report annually to pension plan members setting out how they comply with, or exceed, the adopted set of governance guidelines, and explaining why they do not comply if they choose not to do so.

**5.11** As a result of the Senate Committee report, PIAC, ACPM and OSFI formed a joint task force on Pension Plan Governance. The result of this task force was the development of a common set of pension plan governance principles and a guide (questionnaire) for assessing governance practices.

## Scope

**5.12** Our objective for this project was as follows:

*To conduct a review of the governance and accountability structures in place for pension plans for most employees of the Province and certain other entities as well as members of the Legislative Assembly and to offer recommendations for improvement where appropriate.*

**5.13** While there are eleven provincially-sponsored pension plans our audit project addressed the following eight:

- Public Service Superannuation Plan (PSSA)
- Teachers' Pension Plan (Teachers)
- Members' Superannuation Plan and Members' Pension Plan (Members)
- Pension Plan for Canadian Union of Public Employees of New Brunswick Hospitals (Hospital-CUPE)
- Pension Plan for General Labour, Trades and Services Employees of New Brunswick School Districts (GLT&S)
- Pension Plan for Full Time CUPE 2745 Employees of New Brunswick School Districts (CUPE 2745)
- Pension Plan for Certain Bargaining Employees of New Brunswick Hospitals (Hospital-Certain)
- Pension Plan for Part-time and Seasonal Employees (Part-time)

**5.14** We did not review the Ombudsman Plan and the Pension Plan for Management Employees of NB School Districts because there are no contributors to these plans. And we did not review the Judges' Superannuation Plan because we understand that the plan is being revised.

**5.15** Our review included sending governance questionnaires to each of the pension plan governors as well as to each member of any pension committee. The questionnaire which we used was the one developed by the Joint Task Force on Pension Plan Governance. In addition, we held discussions with various members of the Department of Finance as well as with the Comptroller. We also reviewed the pension plan documents and literature on pension plan governance.

## Results in brief

**5.16** There should be no doubt as to who is the governor of each pension plan. The Province has two pension plans where the governor is not clearly indicated.

**5.17** All four pension plans on which we are reporting have statements of purpose which have been communicated to the plan members.

**5.18** There is a need for a code of conduct to clearly define the fiduciary duty of plan governors and administrators.

**5.19** To some degree, all plans have defined and communicated to members the roles and responsibilities of governors and administrators. However, we have identified areas for improvement.

**5.20** There are shortcomings in the area of performance measurement and reporting in all four plans.

**5.21** Plan governors and administrators need ongoing training in order to fulfil their governance responsibilities.

**5.22** None of the four plans reported any process of self-assessment.

**5.23** Because of its significance, and in view of some of the deficiencies noted in this chapter, we will continue to examine pension governance over the next few years. In particular, we are interested in pursuing the principle related to performance measurement and reporting.

## Governance structure

**5.24** In conducting our work on this project, one of our first challenges was understanding the governance structure, and in particular identifying the governor for each of the plans. The pension governor has been defined by the joint task force as “persons and bodies with the highest level of plan governance authority according to the terms of the plan or applicable legislation”. It is very important that the governor be clearly identified, because this is where responsibility for pension plan performance ultimately rests. Furthermore it is the governor who is expected to take the lead and be proactive in approving appropriate policies, setting pension benefits, and establishing administrative practices.

**5.25** We reviewed the pension plan documents to identify the pension plan governor. As a result of this review we concluded that it was quite clear who the governor was for six of the eight plans. For two of the plans, the plan documents were not explicit as to who was ultimately responsible. Both of the plans in question have Pension Committees and the uncertainty was whether or not the Committees were the governors. We raised this issue with senior staff of the Department of Finance and we subsequently learned that the Department is of the opinion that the Pension Committees for both plans are the governors.

**5.26** The following table summarizes the results of our review.

Plan	Governor
Public Service Superannuation Plan	Chair of Board of Management – Minister of Finance
Teachers' Pension Plan	Chair of Board of Management – Minister of Finance
Pension Plan for General Labour, Trades and Services Employees of New Brunswick School Districts	Board of Management
Pension Plan for Full Time CUPE 2745 Employees of New Brunswick School Districts	Board of Management
Members' Superannuation Plan and Members' Pension Plan (Members')	Chair of Board of Management – Minister of Finance
Pension Plan for Canadian Union of Public Employees of New Brunswick Hospitals	Board of Trustees
Pension Plan for Certain Bargaining Employees of New Brunswick Hospitals	Not explicit
Pension Plan for Part-time and Seasonal Employees	Not explicit

**Observation**

**5.27** There should be no doubt as to who is the governor of each pension plan. This responsibility should be clearly stated in the plan documents. Explicit reference should be made for the Pension Plan for Certain Bargaining Employees of New Brunswick Hospitals and the Pension Plan for Part-time and Seasonal Employees.

**Questionnaire results and reporting**

**5.28** We have summarized our observations around each of the six governance principles developed by the Joint Task Force. The six principles are as follows:

- pension plans should have a clear mission;
- pension plans have a primary fiduciary duty to the plan and its beneficiaries;
- responsibility/accountabilities should be allocated in order to clearly identify stakeholders and define roles;
- performance should be measured and reported;
- individuals involved in pension plan governance should be qualified and knowledgeable; and
- there should be a process of governance self-assessment.

**5.29** These principles are ones which, in the opinion of the Task Force, “are essential to achieving effective governance of a pension plan. There are many methods for implementing these principles. The value of good governance comes from reflecting on each and taking a considered stance.”

**5.30** Our observations are based solely on the results of the questionnaires returned from pension plan governors and pension committee members. In each case where either the Board of Management or Minister of Finance was the governor, the questionnaire was completed by the Deputy Minister of Finance, acting on behalf of the governor. We did not attempt to verify the accuracy of any of the responses received.

**5.31** We decided that our public reporting should only be directed towards those plans where government, through either Board of Management or the Minister of Finance, is the governor.

**5.32** The four plans on which we are reporting are:

- Public Service Superannuation Plan (PSSA)
- Teachers' Pension Plan (Teachers)
- Pension Plan for General, Trades and Services Employees of New Brunswick School Districts (GLT&S)
- Pension Plan for Full Time CUPE 2745 Employees of New Brunswick School Districts (CUPE 2745)

**5.33** The following schedule provides recent data on these four plans.

#### *Pension plan data*

<b>Plans</b>	<b>Pensioners</b>	<b>Contributors</b>	<b>Net Assets \$(millions)</b>
PSSA	8,054	18,403	3,178
Teachers	5,357	9,095	3,020
GLT&S	912	1,913	152
CUPE 2745	101	532	29

**5.34** The Minister of Finance is also the governor of the Members' plans. However, these plans have no assets, and all contributions and pension payments are made through the Consolidated Fund of the Province. Accordingly, the governance responsibilities for these plans are minimal.

**5.35** While we are not reporting specifically on the other plans, we make reference to them in particular instances.

## **Principle 1**

### ***Importance***

#### **Pension plans should have a clear mission**

**5.36** A documented mission is extremely important because it should clearly define why the plan exists. It reflects the reasons for establishing and maintaining the plan and it should be clearly distinct from mission statements of the plan sponsor and any participating unions. A mission statement facilitates the adoption of measurable goals against which the plan, its governor's and administrator's performance is measured. If there is no stated mission for the pension plan, there would be no

common focus and any stated goals or objectives, if they did exist, would have limited meaning.

***Does the pension plan have a mission statement?***

***Responses***

**5.37** The governor for two of the plans indicated that they have a statement of purpose within their plan document. The governor's responses from GLT&S and CUPE 2745 indicated that their statement of purpose was "...to provide benefits to eligible employees within the specific terms and provisions of the plan upon termination and/or retirement." The response from CUPE 2745 acknowledged that this was not a formal mission statement. In the two largest plans, PSSA and Teachers, the governors' responses indicated a statement of purpose is not reflected in the plan document but is contained in employee booklets and brochures provided to members. In both cases the purpose states "to provide financial security to plan members."

***Observation***

**5.38** The first step towards establishing a good governance structure is to have a clear statement as to why the plan exists, one that facilitates the adoption of measurable goals against which the plan, its governor's and administrator's performance is measured.

**5.39** We applaud the fact that a statement of purpose is reflected in the plan document for the GLT&S and CUPE 2745 plans. However, the governor for these two plans may want to consider a statement that would encompass a broader perspective than what is provided in the plan document as a purpose. A broader perspective could include concepts such as "delivering above average benefits", or "delivering benefits at lowest cost possible".

**5.40** We also observed that the statement of purpose for the PSSA and Teachers plans "to provide financial security to plan members" could be interpreted to mean that the plan is taking on more responsibility than intended. In developing a mission statement for these plans the governor may want to consider the extent of responsibility the plans are prepared to assume. We encourage the governor of these two plans to include the purpose or mission statement in the plan documents.

***Has it (mission statement) been communicated to plan members?***

***Responses***

**5.41** Although there are no formal mission statements, the plan governor for three of the plans stated that contributing members receive employee booklets and annual benefit statements outlining the purpose of the pension plan.

***Observation***

**5.42** The responses to this question were very encouraging. We like the fact that the purpose in the majority of the plans was communicated to the plan members.



**Principle 2****Pension plans have a primary fiduciary duty to the plan and its beneficiaries****Importance**

**5.43** Pension plan governors and administrators owe a duty of loyalty to the plan and its beneficiaries over and above any constituency interests. To clarify what that entails, an internal code of conduct should be documented for each pension plan covering fiduciary duty to plan members, benefits administration and funding, restrictions on types of investments, conflict of interest, and other key areas. Compliance with this code of conduct should be monitored on a regular basis. Having a code of conduct, and monitoring compliance with it regularly, helps to ensure that plan assets are protected, and that investment rates of return are maximized within acceptable levels of risk.

***Does the plan have articulated roles and responsibilities for the governor(s) and administrator(s)?*****Responses**

**5.44** Based on the governors' responses, all four plans outline the roles of the governor and plan administrator in the plan document. In addition, two of the plans, GLT&S and CUPE 2745, have Pension Committees and their duties are set out in the plan document. We were informed, however, in the governor's response for the Teachers and PSSA plans that, while there is provision in the plan documents for the appointment of a Board to assist the Minister in the administration of Act, "the Board has not been constituted."

**Observation**

**5.45** We noted that all four of the governors' responses indicated that the plans have attempted to articulate the roles and responsibilities for the governor and the plan administrator(s). We suggest that consideration be given to establishing the Boards referred to in the plan documents for the Teachers and PSSA, provided of course the role and responsibilities for the Boards are meaningful and can be clearly articulated.

***Are there control mechanisms in place to protect the plan, the governors and administrators from conflicts of interest, lack of understanding and dishonesty?*****Responses**

**5.46** All of the responses identified a number of control mechanisms. For instance the PSSA and Teachers response referred to "mechanisms set in legislation, mechanisms set in computer systems, the annual audit by provincial Auditor General, the annual report tabled in legislature (within Dept. of Finance annual report), and the NBIMC annual report."

**5.47** The response from CUPE 2745 and GLT&S stated: "There are control mechanisms which are utilized and common practice to ensure that the plan will be able to meet its promise to provide benefits to its members upon termination and/or retirement." The response then went on to refer to control mechanisms such as collective agreements, the

pension plan text, the tri-annual actuarial valuation, policy investment guidelines and the Administrators' Report.

**5.48** Two pension committee respondents for CUPE 2745 indicated that control mechanisms might not be specifically documented.

**Observation**

**5.49** The responses from the governors indicated there were a variety of control mechanisms in place. We noted however that there was no reference to a code of conduct.

**5.50** We feel there should be a code of conduct for the plan governors and administrators. The code of conduct should clearly define the fiduciary duty of the governor and administrators to the plan and its beneficiaries and set a framework within which the plan governor and plan administrators can operate to meet the objectives of the plan. Such documentation should define the respective roles and responsibilities of the plan governor and administrators and the division of duties between them. This would eliminate any uncertainty about their roles and the stakeholders to whom they are accountable.

**5.51** We noted in the response from the Hospital – CUPE plan, which is administered by a Board of Trustees, references to subsections in their plan document that talk about dishonesty and conflicts relating to trustees and the general duties and powers of the trustees.

**Principle 3**

**Responsibilities/accountabilities should be allocated in order to clearly identify stakeholders and define roles**

**Importance**

**5.52** Because of their importance in the success of the plan, and in order to facilitate performance measurement, the terms of reference for each participant in the governance, management and operations of the pension plan should be clearly documented in the plan document. There are five key areas of responsibility in a pension plan and the pension document should clearly identify who is responsible for each area. These areas are:

- compliance with legislation;
- plan funding;
- asset management;
- benefit administration; and
- communication

**5.53** The plan governor or plan administrators should define the responsibility of each participant. Without responsibilities being clearly defined, important work may not get done, overlap can occur and it is extremely difficult, if not impossible, to hold participants accountable. In practice, many of these responsibilities may be delegated, but ultimate accountability remains with the participant who was assigned responsibility. For example, assume that the governor has been assigned responsibility for paying benefits. The governor may delegate the responsibility for paying benefits to a pension committee, who in turn

may assign this authority to a senior officer, who in turn may assign it to a more junior officer or to an external agent. However, accountability for paying benefits remains with the governor. It is not transferred by this delegation.

**5.54** Additionally, the stakeholders to whom each participant is accountable should be identified. And, to enhance communication, the names of the plan governor, the plan administrator, and other pertinent participants should be disclosed to stakeholders. Accountability is enhanced through disclosure and transparency.

**5.55** In small plans, there may be a smaller number of parties involved, but the principle of allocating authority and accountability remains the same.

***Have the parties responsible for each of the following areas been clearly defined:***

- ***Compliance with legislation***
- ***Plan funding***
- ***Asset management***
- ***Benefit administration***
- ***Communication***

### ***Responses***

**5.56** The responses from the governors of the PSSA and Teachers plans indicated that there are parties responsible for all key areas of pension plan operations, although the responsibility is not always clearly identified within the plan legislation. However, the responses from the PSSA Consultation Committee did not agree. The committee members felt that the parties responsible for each of the key areas were not clearly identified. They responded by saying things like, “I have not seen anything...”, “I am not aware of...” and “Not to my knowledge.”

**5.57** For the GLT&S plan the governor’s response indicated that parties have clearly been assigned responsibility for the majority of the key areas of pension plan operations. There were however two exceptions, both in the plan funding area. One was that the responsibility for approving the actuarial method and assumptions had not been clearly established. The plan governor stated: “The Actuary develops and recommends to Board of Management as reported by the Actuarial Valuation Committee the actuarial method and adoption of assumptions. Board of Management responsible for approval.” However, a number of respondents from the Pension Committee indicated that the area of plan funding is the responsibility of the Pension Committee. Secondly, both the governor and members of the pension committee indicated that the parties responsible for projecting the pension plan’s cash flow have not been identified.

### ***Observation***

**5.58** From the responses received we have identified two areas where improvement could be made. The first one is to ensure that

responsibility for each of the five key areas is clearly identified in the plan document. This should resolve the problems identified in the PSSA and Teachers plans, particularly in the former where there was some uncertainty as to who was assigned responsibility. Secondly, improvements can be made in the GLT&S plan by clearly assigning parties to be responsible for approving the actuarial method and assumptions and by projecting the pension plan's cash flow.

***Are there clear written terms of reference for each of the parties responsible for the functions below?***

- ***Compliance with legislation***
- ***Plan funding***
- ***Asset management***
- ***Benefit administration***
- ***Communication***

***Responses***

**5.59** We are pleased to report that for two of the plans the governors' responses stated that there are clearly written terms of reference for each of the five key areas of responsibility. The same cannot be said for the two largest plans, PSSA and Teachers.

**5.60** The response, from both of the plans, to the question in the area of legislative compliance stated: "No, only sections of Act that designate Minister responsible for administration of Act. Exempt from the PBA (*Pension Benefits Act*)." In the key area of asset management both the PSSA and Teachers plans rely on a provincial Crown corporation, the New Brunswick Investment Management Corporation (NBIMC), for the terms of reference.

**5.61** The pension consultation committee members for the PSSA plan either have not seen any written terms of reference for the parties responsible for the key areas or were unsure how responsibility is communicated to the parties.

***Observation***

**5.62** There should be clear written terms of reference for all parties responsible for each of the key areas. To promote accountability it is important that these terms of reference be fully disclosed so that all plan members and parties are aware of their existence. On the matter of legislative compliance it is surprising that the government pension plans are exempt from the *New Brunswick Pension Benefits Act*, legislation that is intended to set operating standards for all pension plans in the Province. And while there are terms of reference for the key area of asset management for both the PSSA and Teachers plans, they appear to have been established by the investment manager, NBIMC. Such terms of reference should be approved by the governor.

***Are the names of governors and day-to-day administrators in charge disclosed to plan members?***

**Responses**

**5.63** The governor’s response from the PSSA and Teachers stated: “Yes, via legislation and communication to employees.” In the other plans, GLT&S and CUPE 2745, the responses stated, “yes and no.” This was explained by the following statement:

*In the Pension Plan text the Governors are identified as the Board of Management. Company names of plan administrators are disclosed to membership via employee booklet (whom to call with inquiries). Specific names are not always disclosed, with the exception of the Benefit Counsellors assigned to specific employers, so the employees and employers always have a contact name.*

**Observation**

**5.64** We are pleased to note that all four plans stated that the name(s) of the governor(s) and relevant administrator(s) are disclosed to pension plan members. We believe this enhances accountability.

**Principle 4**

**Importance**

**Performance should be measured and reported**

**5.65** Strategic objectives (pre-determined goals) should be identified for each pension plan. These objectives should be directly linked to the mission statement of the pension plan, should be measurable, and should cover all significant aspects of the plan. Objectives might be set for funding, administrative performance, investment performance, and other areas. They should be tailored to the specific requirements of a particular plan and should be adjusted over time in response to changes in stakeholder needs. Annual performance targets should be set for each of these objectives, and the results of performance measurements, complete with explanations where performance targets have not been met, should be reported to the appropriate stakeholders. Compliance with legislation should also be monitored.

**5.66** It is normally the role of the plan’s governor to ensure that strategic objectives and appropriate annual performance targets are set, that performance is measured and that the results are reported to stakeholders. It should also be the responsibility of the governor to take action when performance targets have not been met.

**5.67** The governor is ultimately accountable for pension plan governance. As such, it is important that the governor be involved in setting some of the more critical strategic objectives and performance targets. For example, since asset management is critical to the ongoing financial health of the pension plans, the governor should be included in setting benchmarks in areas such as rates of return objectives, risk tolerance and asset mix.

***Are there clear and objective measures of performance of the following areas?***

- ***Compliance with legislation***
- ***Plan funding***
- ***Asset management***
- ***Benefit administration***
- ***Communication***

***Responses***

**5.68** In all of the plans the responses from the governor indicated that in at least three of the five areas there were not clear and objective measures of performance.

**5.69** The responses from the governor of PSSA and Teachers indicated that there were no clear and objective measures of performance for compliance with legislation because they were exempt from the *New Brunswick Pension Benefits Act*.

**5.70** As for ensuring the adequacy of plan funding, responses from all four governors indicated that funding policies did not exist, but they were under development in the case of PSSA and Teachers.

**5.71** The responses from the governors were split on the matter of clear and objective measures for asset management. Both the GLT&S and CUPE 2745 plans were of the view that there were clear and objective measures. They responded that investment policies and objectives were set by “Treasury and Debt Management in conjunction with approval from Board of Management.” For both the PSSA and Teachers plans the governor stated: “NBIMC Board sets and measures these”. There is no mention of approval being required by the plan governor. Of particular concern are the results of the responses received from the pension consultation committee for the PSSA plan. They indicated that they were not aware of any measures of performance being in place.

**5.72** The governor of all four plans indicated there were shortcomings in measuring performance in the area of benefit administration. Two of the plans, Teachers and PSSA, indicated that measures of performance were either under development or under consideration for development. For the other plans responses from the governor and pension committee members commented on shortcomings such as lack of standards for enrolling members, establishing and maintaining member records and calculating and processing benefit payments.

**5.73** In general all responses indicated that more could be done in establishing performance measures for communication of relevant pension information to pension plan stakeholders.

**Observations**

## Legislative compliance

**5.74** The response from the PSSA and Teachers plans would suggest that compliance is not an issue because they are exempt from the *New Brunswick Pension Benefits Act*. We disagree because in our opinion all four plans require compliance with their own pension document as well as with the federal *Income Tax Act*. This is a fundamental responsibility. The measure of performance here is quite simple: each plan should comply with all requirements of the plan document and any relevant legislation.

## Plan funding

**5.75** Generally it is the role of the plan governor or administrator to ensure that there are clear and objective measures of performance in the following three funding areas: establishing funding policies for the pension plan, approving the actuarial method and assumptions and projecting the pension plan's cash flow. To the extent this is not being done, and judging by the responses received it is not, action should be taken by the governor.

**5.76** For the PSSA and Teachers plans, should the governor or administrator continue to delegate the authority to the Actuarial Valuation Committee for approving the actuarial method and assumptions, it is important for the governor and administrator to realize that the responsibility is not transferred. Thus the governor or administrator must ensure there is a supervisory process in place to approve the actions of the Committee.

## Asset management

**5.77** We would like to draw particular attention to the area of asset management for the PSSA and the Teachers plans. Currently the NBIMC is involved in establishing investment policies and objectives, and monitoring compliance with these investment policies. These very important policies have not been approved by the governor.

**5.78** We were pleased to note that for the other two plans these important policies were approved by the governor, the Board of Management, with input provided by the Treasury and Debt Management section of the Department of Finance.

**5.79** In all cases we believe that the governor should be involved in setting clear and objective measures of performance as well as providing the final approval for such measures.

## Benefit administration

**5.80** Generally the plan governor or administrator should ensure that there are clear and objective measures of performance for each of the following areas:

- establishing service standards;
- calculating and processing benefit payments;
- enrolling members;
- establishing and maintaining member records;
- creating and distributing member communication and education materials;

- monitoring accuracy and timeliness of major services to members against established performance objectives; and
- remitting contributions to the custodian.

**5.81** We have noted that there is a lot of room for improvement in this area.

***Is there a process in place to prepare regular reports to appropriate stakeholders and evaluate the attainment of performance in the following areas?***

- ***Compliance with legislation***
- ***Plan funding***
- ***Asset management***
- ***Benefit administration***

### **Responses**

Compliance with legislation

**5.82** The governor’s response for the PSSA and the Teachers indicated that reporting on compliance with legislation was not applicable because “PSEBB (Public Service Employee Benefit Branch) monitors through discussions with Revenue Canada.” The governor’s response for GLT&S and CUPE 2745 indicated that they did not report on compliance because they were exempt from the *Pension Benefits Act*. They did recognize however that there were specific references in their plan document to provisions of the *Income Tax Act*.

Plan funding and asset management

**5.83** The governor for each of the four plans indicated there is a process in place to prepare regular reports to appropriate stakeholders and to evaluate the attainment of performance in the area of plan funding and asset management. The response from the governor for the PSSA and Teachers plans in relation to asset management stated: “NBIMC distributes ‘annual reports’ to stakeholders and members.” The responses from the pension committees for the GLT&S and CUPE 2745 plans did not agree with the governor. They stated that it was their belief that there is no process in place to prepare regular reports to appropriate stakeholders and to evaluate the attainment of performance in the area of plan funding and asset management.

Benefit administration

**5.84** The response from the governor of both PSSA and Teachers plans stated that there was no reporting on benefit administration measures “other than Department of Finance annual report, newsletters and general memoranda.” The two other plans responded positively to the question.

### **Observations**

**5.85** The key to reporting on performance measures is to have good measures to start with. So to the extent that we identified shortcomings in the establishment of performance measures earlier in this chapter, we have reservations concerning the effectiveness of any reporting. For reporting to be effective, it should be related to measures approved by the governor. Judging from the response, this is the case when the governor of the GLT&S and CUPE 2745 plans reports to its



stakeholders on the performance of the investment managers. The case is different for the PSSA and Teachers plans where the governor only receives the investment manager's (NBIMC) annual report. When the governors of these two plans report to their stakeholders, they are reporting on performance measures approved by NBIMC, the investment manager.

**5.86** In general we believe that reporting on performance is an area where improvement can be made. In addition to the observation made above we note there is little reporting on compliance with legislation, progress made towards plan funding and the effectiveness of the administrator. Of equal concern is the inconsistency in response between the pension committees and the governors for the GLT&S and CUPE 2745 plans. These situations should be investigated.

## **Principle 5**

### **Individuals involved in pension plan governance should be qualified and knowledgeable**

#### ***Importance***

**5.87** Each person involved in governing and administering the plan should have, or acquire, knowledge and skills that are current and appropriate for the responsibilities and accountabilities they carry. Individuals responsible for the governance of the plan should be provided with orientation sessions and appropriate training to assist them in fulfilling their responsibilities.

#### ***Does the plan have criteria and a process for selecting the plan governors?***

#### ***Responses***

**5.88** For all four plans the responses from the governor indicated that the selection process for the plan governor was very clear. For the PSSA and Teachers plans, legislation establishes the Minister of Finance as the governor and for GLT&S and CUPE 2745, members of the Board of Management are the governors.

#### ***Observation***

**5.89** In each of these plans there is no opportunity to select the plan governor since the governor is set by legislation.

#### ***Are the individuals responsible for the governance of the plan provided with training and orientation to fulfil their responsibilities?***

#### ***Responses***

**5.90** The responses from PSSA and Teachers plan governors both stated: "Minister receives orientation and has professional staff. NBIMC has training available to Board members and staff." The responses from GLT&S and CUPE 2745 indicated that members of the Board of Management are not provided with any training that would help them fulfil their governance responsibilities beyond an initial orientation session.

#### ***Observation***

**5.91** While the response from the governor for PSSA and Teachers indicates there is an orientation for the Minister, there is no reference to on-going training. It is important that on-going training build on the

orientation by providing information on the principles of governance and that such training be given to the Minister of Finance and Board of Management.

**5.92** It is also important that formal orientation and training be provided to all individuals involved in governing and administering a pension plan. This will enable those individuals to fulfil their responsibilities to the plan.

## Principle 6

### *Importance*

### **There should be a process of governance self-assessment**

**5.93** It is very important that a pension plan be effectively governed. An important step that can be carried out to help improve pension plan governance is a self-assessment exercise. The governance process, including reporting to the appropriate stakeholders, should be reviewed and modified over time to ensure its effectiveness. It is important that this review assess the effectiveness of the individuals (administrators, investment managers, agents, etc.) involved in the process on a regular basis. Such reviews, if done conscientiously, serve to challenge established methods and thought patterns, thereby improving the effectiveness of the governance process.

***Are there processes and criteria in place to allow the individuals responsible for the governance of the plan to assess the effectiveness of the plan's governance, and the individuals involved in it, on a regular basis?***

### *Responses*

**5.94** As indicated by the governors' responses, none of the four plans reported any process of self-assessment.

### *Observation*

**5.95** As with any good governance model there should be an assessment on how well things are doing. At the highest level this assessment would examine the effectiveness of the current structure of having the Board of Management or Minister of Finance as the plan governor, and it would also examine the effectiveness of all administrators (investment managers, actuaries, benefit administrators, etc.). Based on the responses, governance can be improved in all plans by clearly articulating the processes and the criteria to be followed in undertaking such a review. Such a review should be undertaken on a regular basis.

### *Departmental comments*

**5.96** The Department of Finance provided the following general comments on our final report:

*We wholeheartedly subscribe to the underpinnings of the [Senate Committee] report and the questionnaire, but have not completely grasped all the concepts that they raise. The explanation that the "plan governor refers to the individual or body that has been assigned the highest level of plan*

*governance authority...” seems to be circular in nature and not totally clear.*

*We do agree that there is room for improvement in the Province’s governance practices and that awareness of this issue could be more widespread. We appreciate the work done by the joint task force and the tools that they have provided to those involved with pension plans, to assist in ensuring that governance practices are at an advanced level.*