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Room to Thrive: Why Principles-based Standards Make Sense for Regulating Contingent Pension Plans

by
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- As membership in traditional defined-benefit pension plans declines, plans in which benefits are contingent on the financial status of the plan are becoming more common. Rather than placing all the risk on sponsors to deliver guaranteed benefits to members, these contingent pension plans require members to take on at least some of the risk that benefits may or may not meet expectations. This E-Brief focuses on two types of contingent plans, target-benefit plans and multi-employer pension plans.
- These plans offer a different promise than traditional defined-benefit plans and the contract with plan members is different. This needs to be reflected in how they are regulated. Regulators should adopt a principles-based approach to financing-related standards, while using a rules-based approach for aspects such as governance and member communication.
- Principles-based regulations focus on desired outcomes rather than processes. Most contingent plans have members materially involved in the running of the plan, involved in making all key decisions, which makes principles-based regulations particularly well fitted. Plan governors would have more flexibility in how they manage the financing risks, rather than having to comply with generic rules that attempt to work on a universal basis. The streamlining of rules and an emphasis on objectives promote compliance, and enhance the ability of regulations to achieve their desired outcomes.

The current approach of rules-based standards for certain contingent pension plans[1] can be fraught with problems. The main one: they can impose minimum funding requirements that are in direct conflict with a plan's risk management processes and funding strategies. A principles-based approach for these plans focusing on long-term sustainability through high standards

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1 Contingent pension plans are plans where benefits are directly dependent on the financial position of the plan. The term was coined in Gros and Sanders (2019) and includes the following types of plans: target-benefit plans, multi-employer pension plans, shared-risk plans and jointly sponsored pension plans (JSPPs) with conditional indexing.

for risk management can create the right environment for superior decision-making tailored to each plan's circumstances. A rules-based approach for these plans that imposes generic funding requirements that plans end up having to work around may ultimately satisfy the needs of none of them.

Gros and Sanders (2019) concluded by asking that "parties involved in pension policy and standards spend more time understanding existing practices of well-managed plans and seriously consider our recommendation that prescriptive standards focus on aspects such as governance and member communication, leaving financing-related standards to be principles-based." This paper continues by developing the theme of principles-based financing-related standards and providing further commentary on strengthening standards for governance and member communication.

This paper focuses on just two types of contingent pension plans: target-benefit plans and multi-employer pension plans,[2] referring to them jointly as "TB-MEPPs," or singularly as "TBs" or "MEPPs." I believe, for the most part, current pension standards for the other types are comprehensive and well thought-out. However, a conclusion from Gros and Sanders (2019) is that TB-MEPPs can be misunderstood by those who don't work directly with them. This can lead to pension standards for TB-MEPPs with unclear objectives and of questionable value when they are developed from the perspective of traditional defined-benefit (DB) plans.

The balance of this paper will cover what principles-based regulation (PBR) means, why it makes sense for TB-MEPPs, what PBR standards could look like, and provide commentary on balancing principles-based financing-related standards with strengthened standards for governance and member communication.

Principles-Based Regulation

PBR is based on the idea that organizations and their management are better placed than policymakers and regulators to determine what processes and actions are required within their operations to achieve a given policy objective. So, instead of focussing on prescribing the processes or actions that organizations must take, policymakers step back and define the outcomes they are looking for. Organizations are then able to find the most efficient way of achieving the outcome required (Coglianese et al. 2003).

PBR means relying on broadly stated principles to set regulatory standards rather than relying on detailed prescriptive rules. PBRs are usually supplemented by guidelines to aid in their interpretation and application. PBRs often have the general objectives of being simpler and easier to comply with, clearer about what's required to comply, and in line with the purpose of what they are meant to achieve (Black 2007). PBRs often have the following characteristics:

- they are drafted at a high level of generality, intended to be overarching requirements that can be applied flexibly to a rapidly changing industry;

2 Target-benefit plans aim to provide a defined benefit but are funded through fixed contributions. If the fixed contributions are insufficient to provide the target benefits the benefits may be reduced. MEPPs are typically target-benefit plans and cover workers employed by a number of employers, often in the same economic sector. They are customarily funded by fixed contributions, where the benefits may have to be reduced if the contributions are insufficient to pay for the benefits. MEPPs are administered by boards of trustees, at least 50 percent of whom must represent the active members of the plan.

- they contain terms that are qualitative not quantitative: general, usually evaluative terms ("fair," "reasonable," "suitable") as opposed to clearly defined rules ("within two business days");
- they have a clear purpose, expressing the reason behind the rule;
- they have very broad application to a diverse range of circumstances;
- the principles are largely behavioural standards – they are concerned with, for example, "integrity," "skill care and diligence" and "reasonable care" (Black et al. 2007); and
- they rely on constant improvements of industry best practices and guidance with respect to best practices rather than prescriptive rule-making (Condon 2007).

That said, it should be emphasized that a principles-based approach does not mean self-regulation, voluntary compliance or deregulation (Report of the Joint Expert Panel on Pension Standards (JEPPS 2008)).

JEPPS (2008) contains extensive commentary on principles-based vs. rules-based legislation. It summarizes the general benefits of principles-based legislation as follows:

- Flexibility – Because principles tend to focus on outcomes, they can be designed to be clear and easily linked back to the objectives of the regulatory framework. Because they focus on the purpose behind the requirements, principles are more enduring – they can accommodate innovations as long as they are used in a manner that achieves the ultimate objective. These characteristics make principles more flexible, allowing regulated entities to design their own approaches to compliance and facilitating innovative products, strategies and internal processes. In a pension context, the use of principles may help to stimulate improved plan designs that meet the objectives of workers and employers in the future, without having to change the legislation as each innovation comes to light.
- Promoting compliance – Because they focus on outcomes, principles articulate the objectives of regulation rather than what specific steps must be taken in a particular circumstance. By emphasizing the desired outcomes, principles-based legislation promotes behaviours that will achieve its objectives and minimize 'creative compliance' or 'compliance by loophole.' Raising regulatory requirements to higher level concepts tends to engage senior management in the regulatory process, bringing a more strategic approach to bear in regulated entities and making it more likely that regulatory objectives will be addressed in overall organizational governance and internal control policies. In the pension context, this could improve overall compliance and benefit security.
- Streamlining – Another potential benefit is a general 'decluttering' of the legislation. By focusing on key principles instead of a confusing labyrinth of rules, the legislation can be streamlined and clarified. Although detailed rules can contribute to clarity, too many rules can also cause confusion, defeating the objective of certainty. (Page 43.)

In the early 21st century, many policymakers were convinced that PBR was the answer they had been looking for to solve their problems in regulation (Tanke et al. 2011). Rules had been unable to prevent misconduct of organizations in multiple sectors. Examples are the sale of improper financial products and major transgressions of deadlines in air pollution regulation. Another problem policymakers have faced is the inability to keep pace with regulation in sectors with rapid technological improvements and constant evolution of the area being regulated.[3] Principles provide the framework in which organizations can organize their own internal management systems and controls to achieve the outcome policymakers seek in a better way than prescriptive rules.

In one case, the UK Financial Services Authority's (FSA) re-formulation of PBR had three distinctive elements, which signalled a potentially radical change in the relationship between the FSA and the regulated industry (Black 2007):

- greater reliance on broad-based standards in preference to detailed rules;
- a move to outcomes-based regulation; and
- increasing senior management responsibility.

It noted that the required change in the relationship between organizations and the regulator (the FSA in this case) would only work if there is a corresponding change in skills and attitudes at the regulator. In particular, the regulator needs to give organizations the space to innovate. This can also demand a more sophisticated dialogue between organizations and their supervisory officers than under a rules-based framework (Black 2007). Furthermore, a key to this changed relationship is the building of trust between the regulator and those regulated (SSE 2016).

Why PBR Makes Sense for TB-MEPPs

The fundamental challenge for TB-MEPPs is as follows: given a fixed contribution going into the plan, what's a reasonable pension benefit that plan members can expect to receive? While easy to state, accomplishing this is another matter. Pension regulations that were first promulgated starting in the mid-1960s were pretty much focussed on traditional defined-benefit (DB) plans – several existing pension plan designs didn't even exist then (e.g., jointly sponsored pension plans (JSPPs) – and pension regulation has evolved over time from that DB base.

Research shows there are some key differences between TB-MEPPS and traditional DB plans that should affect how they are regulated (Gros and Sanders 2019): (i) traditional DB plans are managed by a single employer with no plan members involved in the running of the plan, whereas TB-MEPPs typically are managed by boards of trustees with significant member representation; (ii) with a traditional DB plan, the benefit has a hard guarantee (at least as long as the sponsor is solvent and there are sufficient assets), whereas there are no benefit guarantees in the typical TB-MEPP; (iii) under DB, the statutory actuarial valuation is an important financial management tool, whereas for most TB-MEPPs it is exactly the opposite (more on this later).

A strong argument for PBR comes from the nature of plan governance in TB-MEPPs. Having members materially involved in the running of the plan, involved in making all key decisions, fundamentally changes the nature of the overall risk inherent in the plan (ON 2008). This was a key factor in ON (2008) recommending different funding rules for JSPPs (including jointly sponsored TBs) from those for DB. It's also worth noting that independent governance is a cornerstone of what has become known worldwide as the Canadian Pension Model (World Bank 2017) exemplified by many of Canada's JSPPs. Bauslaugh (2019) makes an interesting point suggesting the key to appropriate legislation is not prescriptive rules but a focus on fiduciary duty, fiduciary duty being the highest duty known to common law.

3 This is particularly true of pension plans.

The fundamental challenge for traditional DB plans is determining the appropriate level of contributions to deliver the promised benefit. Pension regulations regarding this funding have changed dramatically over the years. The most recent development has been a move away from funding on a solvency basis[4] to a going-concern-plus[5] basis with a prescribed provision for adverse deviation (PfAD).

Gros and Sanders (2019) contended that in a post-solvency funding world pension standards for contingent pension plans should focus on long-term sustainability. The study found that contingent pension plans are a heterogeneous group with different designs and diverse financial management approaches. As a result, surveyed participants,[6] while understanding that it might be desirable, found it impossible to conceive of a single prescriptive regulatory framework that wouldn't get in the way of individual plans' specific objectives and practices. This seems consistent with one of the key conclusions of JEPPS (2008) that stated "principles where possible, rules where necessary."

Unfortunately, we now have the situation where TB-MEPPs seem to have been caught up in the move away from solvency funding for traditional DB plans with the imposition of going-concern-plus funding rules without any recognition of plan-specific objectives and risk management processes in place.[7] I believe it's important to look at the merits of PBR in the context of the imposition of going-concern-plus funding, and in particular, a legislated generic provision for adverse deviation.

The implication of prescribing a PfAD to a traditional DB service cost[8] (SC) is very clear, more contributions being required from the sponsor. The purpose behind adding such a provision to the SC for a TB-MEPP is not as clear but its implications can be very disruptive. Funding levels for TB-MEPPs are typically fixed, not driven by the actuarial valuation results.[9] Prescribing a minimum PfAD on top of the SC for a TB-MEPP does not result in any additional funding because the contribution levels are fixed through negotiations or other means independent of the provision requirement. So, no further dollars will go into the plan because of the PfAD. Nor can it increase benefit security, as it does with DB, because imposing a PfAD can only operate to reduce the future benefit accruals expected otherwise under the terms of the pension plan. Even worse, in the event that

4 Under solvency funding the pension valuation assumes the plan is about to be wound up so that its assets will have to be used immediately to settle existing liabilities.

5 Going-concern-plus takes a long-term approach to funding (i.e., going-concern) rather than a short-term (i.e., solvency) view and incorporates an explicit provision for adverse deviation (PfAD). The PfAD is generally specified by pension standards and typically takes into consideration variables that can materially affect a pension plan's financial position, such as interest rates and the degree of mismatch between assets and liabilities.

6 References to participants and research in this paper refer to the earlier paper (Gros and Sanders 2019).

7 Interestingly, the move to a going-concern-plus regime for DB has nothing to do with increasing benefit security for plan members; it is simply an attempt to prevent further closure and freezing of existing DB plans by employers by reducing the overall required level of prescribed funding (CIA 2019). This challenge of ongoing plan closures does not exist with TB-MEPPs. The context in which the term "benefit security" is used here is having sufficient assets in the plan to fully settle all obligations of the plan.

8 Service cost is the value of pension accruals for the one-year period following the valuation date, based on the pension plan's going-concern valuation.

9 Funding for DB plans is determined from the results of statutory actuarial valuations and will generally vary from valuation to valuation. This is not the case for the typical TB-MEPP where contribution levels are set independent of the actuarial valuation required by pension standards.

fixed contributions are redirected by pension standards to fund past service deficits, then benefits for current members are "stolen" in order to prop up benefits for past members. The Canadian Institute of Actuaries (2015, June) summarizes this situation very well:

> Much of the focus to date has been on reducing benefit risk. It should be stressed that this cannot be achieved without either increasing plan cost or triggering larger intergenerational transfers, or both. Stated differently, a plan that has a fixed contribution commitment cannot reduce benefit risk over a fixed horizon (say, 15 years) without either lowering the target benefit level (today, or in the future) or relying on forms of intergenerational risk sharing that provides less than full compensation to members for bearing risk for others. (Page 11.)

The concept of a "PfAD" for TB-MEPPs[10] seems to have been first proposed by JEPPs (2008) (Baldwin and FitzGerald 2010). JEPPs (2008) included a recommendation that, in determining the size of the provision and the prescription for remediating problems, standards should require the actuary to perform appropriate scenario tests that must include stochastic tests and specified deterministic scenarios.[11] JEPPS (2008) also suggested that plans could determine the PfAD appropriate for their identified risks (within the applicable standards). These suggestions are more in line with a principles-based approach to regulation than a rules-based approach. However, JEPPS (2008) seems to have been ignored in Alberta's and British Columbia's subsequent development of their PfAD standards in 2013 and 2015, respectively, under which plans are allowed no latitude to develop a provision appropriate to their plan (ATBF 2013).

It's worth mentioning that JEPPS (2008) seems to be completely in line with what the Canadian Institute of Actuaries (CIA) has been saying for years. In reference to MEPPs, CIA (2001) stated: "The actuary should always remember that neither a contingency margin nor a PfAD is a substitute for good actuarial science." In reference to TBs, CIA (2013) went into more detail, indicating support for "a structure where the actuary has sufficient latitude to determine a PfAD that is appropriate to the particular circumstances of the plan. A method that is too prescriptive fails to meet that goal." It went further to state that "ideally the required level of PfAD should be set by forward looking analysis. A rules-based approach would not allow for an independent assessment, so the PfAD would be either too low or too high." This was followed up in CIA (2015, Sept.), which stated, with respect to TB, "these plans are not 'one size fits all', so the rules should provide sufficient flexibility to the board of trustees. A simple regulatory scheme will not meet these goals." The CIA's position also seems to have been ignored in the recent development of regulations for TB-MEPPs.

Another matter worth mentioning, while not directly financial in nature but perhaps even more germane to some, is intergenerational equity. This matter seems to be entirely absent in the stated objectives in the development of pension standards for TB-MEPPs but it came up frequently in interviews with participants working with these plans (Gros and Sanders 2019). Part of the problem is that intergenerational equity is not well defined presently. For example, does it mean the same benefits for all members over the years? or the same value received by all members for contributions remitted by them or on their behalf? One example of a

10 JEPPS (2008) used the term Specified Contribution Target Benefit (SCTB).

11 Stochastic projection models incorporate risk and randomness by generating a wide range of plausible scenarios that may arise in the future, taking into account the combined effect of different random factors. In deterministic projections, only one future scenario is considered, corresponding to one specific series of future economic and demographic outcomes.

DB plan dealing with this issue is Ontario Teachers' Pension Plan. It recognizes that the impact of adverse plan experience should not be met solely by increases to contributions for current members and manages inflationary adjustments to pensions in payment to bring about some intergenerational equity (OTTP 2019). In another case, the College Pension Plan in British Columbia manages a separate inflation account in its plan on a long-term basis to ensure that post-retirement inflationary adjustments are consistent across all generations (Benefits Canada 2018).

The PfAD as it's been prescribed so far for TB-MEPPs can result in the systemic ingraining of intergenerational inequity via long-term prescribed funding of more than is necessary, regardless of an individual plan's policy and plan for dealing with intergenerational equity. More research is needed in this area to understand ways that TB-MEPPs could better deal with the impact on the cost of benefits of adverse plan experience such as increasing longevity and overall declining investment returns, in relation to intergenerational equity.

So where does this leave us? The preceding commentary is not meant to suggest that TB-MEPPs should operate without PfADs, buffers, levers, margins, etc. (pick your preferred term). The main point is that it is more effective and efficient for plans to identify the primary risks they are subject to and to implement risk management strategies and margins that are appropriate for their situation. Further to what was mentioned earlier, the statutory actuarial valuation is not the main plan management tool used by most TB-MEPPs (Gros and Sanders 2019). This is consistent with CIA (2015, June), which stated that stochastic processes are the best tools for balancing fixed contributions and benefits at the time they are set. The report also indicated that stochastic processes are also the best tools for managing the ongoing sustainability of a TB-MEPP. But the use of stochastic processes for managing TB-MEPPs is not prescribed by law nor required by actuarial standards of practice.

Finally, it's worth asking why plans that follow rigorous plan management practices, using multiple forward looking metrics, including stochastic processes and deterministic stress testing, to demonstrate the adequacy of their contributions, should be penalized by the overlaying of a prescribed going-concern funding test involving a minimum PfAD.

What PBR Could Look Like for TB-MEPPs

Gros and Sanders (2019) found that no one involved in managing TB-MEPPs wants a volatile benefit in their plan. And certainly none of them want benefits to reduce unless absolutely necessary. Bauslaugh (2019) observes that the decision to reduce accrued benefits can be an extremely personal and difficult decision for the trustees involved, but can be necessary to maintain the sustainability of a plan. Survey participants indicated that their tool box for managing TB-MEPPs is ever evolving and has changed significantly over the years with advances in technology. In particular, stochastic forecasting tools have become less expensive and easier to use, allowing advisors and boards to do much more "what if" exercises, enhancing their understanding of the nature and extent of the risks their plans are exposed to and the implications of the range of risk-mitigation strategies.

Before addressing policy specifically, let us look at what appeared to be best practices for financial management of TB-MEPPs based on participants interviewed for Gros and Sanders (2019), noting that no plan had all these elements:

- Plan has established and articulated sustainability objectives, defining them in plain language terms.
- Plan either has a formal funding policy (or a funding/benefits policy) or has had robust discussions identifying risk factors that are specific to the plan.

- Plan has a risk management framework with specific strategies to address each key risk factor identified in its funding policy, including identifying appropriate margins to increase the likelihood of delivering the targeted benefits.
- Plan has identified, either as part of its funding policy or separately, appropriate remedial action, with ranked priorities, should predetermined sustainability tests fail, i.e., "triggers."
- Plan has adopted a formal model for balancing contributions and benefits. A common one involves full integration of investment, funding and benefits policies so that no decision is made on one policy without understanding its implications on the other two. But there were other effective models as well.
- Plan assesses the degree of balance between contributions and benefits on a long-term basis of at least 20 years, using either stochastic or deterministic tools or both, and generally using a suite of metrics rather than just one measure.
- Plan monitors its exposure to each key risk factor on a regular basis, more frequently than the statutory valuation cycle (Gros and Sanders 2019).

The following are examples of the kind of principles that might be a natural fit for the preceding best practices:

- Plan members and their benefits should be at the centre of all decision-making by those managing the plan.
- The primary objective of plan management should be the long-term sustainability of the targeted benefits.
- Benefit sustainability should be defined by each plan including the acceptable frequency for benefit adjustments.
- Margins should be adopted appropriate to the risks involved and the outcomes specified by plan management or pension standards.
- Whenever sustainability tests fail, remedial action should be taken within a reasonable period of time.
- There should be consistency over time in the methodology used for determining sustainability. The rationale for changes in the methodology should be clearly documented.
- A position on intergenerational equity should be taken.
- All work of an actuarial nature must be done in accordance with applicable standards of practice promulgated by the Canadian Institute of Actuaries.

A trend in pension regulation in Canada is to move to a risk-based assessment and monitoring approach. This involves developing plan metrics that raise red flags so regulators can focus their often limited resources on the plans that they believe are most at risk. It is worth noting that the time span between updates to pension standards tends to be measured not in years but decades. With actuarial practice and pension design evolving continuously, it is hard to believe that pension standards for TB-MEPPs can maintain relevance if they are based on detailed rules. It would seem that PBR combined with appropriate metrics under a risk-based assessment framework, perhaps with onsite plan inspections, could work extremely well without putting members' pension benefits unduly at risk.

It's also worth noting that the regulatory burden for any one province of monitoring TB-MEPPs cannot be large because the number of TB-MEPPs that any one province regulates is relatively small. For example, while it is not easy to find plan numbers for all jurisdictions, Ontario, with the most DB-type plans overall in Canada (1,364), has only 73 MEPPs (FSCO 2019), whereas British Columbia has just 38 TBs (Barbeiro et al. 2019) plus a small number of MEPPs. Given these plans are not homogeneous (Gros and Sanders 2019), it seems that the PBR framework could be simple to administer and fairer to the plans involved.

Achieving Balance in Standards

Gros and Sanders (2019) recommended that prescriptive standards focus on aspects such as governance and member communication. While these topics have sufficient scope for their own paper, I believe it is worthwhile to provide some brief thoughts on governance and member communication.

Governance

A plan's current state of wellness is the result of all of the decisions that have been made over its existence. Good governance enhances the chance of getting these decisions "right" and thereby contributing to the health of the plan (ON 2008). Its importance cannot be understated. But to work, governance must be more than a checklist, it must be an active part of plan management.

Gros and Sanders (2020) draws a direct link between governance and the sustainability of contingent pension plans. Briefly, the three factors that policymakers could focus on to strengthen plan governance are:

1. Organizational coherence
    - Clarity of plan's sustainability goals.
    - Highly competent sustainability management function with clear responsibilities and accountability.
    - Resources dedicated to monitoring and managing sustainability.
2. People
    - Board members with identified key competencies compatible with an adopted skills matrix.
    - Leadership encouraging a culture of accountability around sustainability.
    - Commitment to managing by goals and objectives.
    - Respect for the fiduciary role.
3. Process
    - A sustainability philosophy supported by all stakeholders that is reflected in the plan's integrated benefit-contribution-investment policy, which drives all decision-making.
    - Use of short- and long-term risk budgets aligned to the plan's sustainability goals.
    - Effective use of external advisors.
    - Ability to act on a time frame consistent with stakeholders' expectation for intergenerational equity.

ON (2008) highlighted issues with MEPPs at that time: retirees often having no voice in the governance of their plan; many MEPP members apparently being unaware that their pension benefits are not fixed; many MEPPs being governed entirely by member representatives (typically union appointees); and the roles of some key participants in pension governance being ambiguous so that their duty to the plan is not clearly defined. With the move away from solvency funding, ON (2008) suggested that MEPPs:

> …acknowledge they are accepting greater risks by abandoning solvency funding and ensure that members are aware of this fact; initiate reforms in their governance arrangements that will ensure greater transparency

> in risk management, greater accountability by plan administrators, and greater influence by beneficiaries over decisions being made on their behalf in this new, riskier atmosphere.

ON (2008) went on to further suggest that MEPPS should: appoint representatives with differing interests as trustees (e.g., ensure retired members are included); appoint non-beneficiaries as trustees (e.g., independent trustees); and lessen conflicts by adopting formulaic rules where possible for benefit adjustments (e.g., pro-rata reductions across all plan members). A direction for future regulation would be to enhance the checks and balances that appear to be needed, especially with respect to keeping members informed of the true nature of their benefits and providing them with opportunities to discuss key plan decisions.

CAPSA[12] Guideline No. 4 is a great resource for understanding what an effective plan governance framework might consist of, but it is just a guideline, not required by pension standards. Some pension standards also lay out the minimum requirements for a prescribed governance policy (e.g., see Reg. 50 of the British Columbia *Pension Benefits Standards Act*). The International Federation of Employee Benefits (IFEB) offers ongoing instruction for pension plan trustees.[13] But survey participants consistently mentioned governance challenges involving either structure, people or focus, or all of the preceding. So, it would seem that issues with governance stem not from a lack of resources but due to other factors, such as those highlighted in ON (2008). It's interesting to look at the United Kingdom where there is a national association specifically for pension trustees with proposals to institute a recognized pension trustee accreditation. There is no similar movement active in Canada.

I believe that it's important that governance be seen as an evolving process and not a destination. Governance, along with many other aspects of plan management, needs to continually evolve as the needs of the plan and best practices evolve. For example, in the last five years, the UBC Staff Pension Plan has made changes in its governance by: formalizing the position of an independent board chair; setting a time limit for board membership (12 years); assigning two of its four appointed positions[14] to designated UBC staff positions to ensure the board has the right knowledge and competencies; and establishing of an Environmental, Social and Governance (ESG) Committee to work on ESG investment-related issues and bring forward specific recommendations to the full board.

Member Communication

A key research finding is that "on a generally universal basis, plans are undertaking no formal activities to understand their members' understanding of the plan, their concerns and their misconceptions" (Gros and Sanders 2019). Furthermore, many plans lacked clarity on their communication strategy and key messages. For many plans the focus is on delivering the prescribed minimum disclosure material, and no more. ON (2008) suggested a need for more disclosure to plan members and that it be rules-based. CIA (2015) supported "detailed and prescriptive regulations regarding communication and disclosure to members. We strongly believe that disclosure to members about the nature of the plan, particularly the fact that benefits are not guaranteed, is crucial to managing member expectations." Bauslaugh (2019) seems to reinforce the benefits of doing so,

12 Canadian Association of Pension Supervisory Authorities (CAPSA).

13 Most TB-MEPPs are managed by boards of trustees with at least 50 percent of trustees being plan members.

14 The pension board of the University of British Columbia (UBC) Staff Pension Plan consists of four members appointed by the UBC Board of Governors, four members elected from the plan membership, and an independent non-voting chair appointed by the UBC Board of Governors.

highlighting a key learning that "communicating the true nature of a contingent plan … does seem to have a measurable and positive impact on plan engagement, understanding and appreciation."

Given that maintaining the trust of plan members can be critical to plan sustainability (Gros and Sanders 2019), and trust is based more on emotions than facts, it's unfortunate that so little attention is paid to member communication by either policymakers or plan management. One way to address this would be to require all TB-MEPPs to have a "communication policy" similar to funding and governance policies. An effective communication policy would include at a minimum, the following:

- identification of all key audiences;
- statement of goals and objectives; and
- identification of all communication activities, by audience, indicating their purpose, expected outcomes and measurement metrics so that the effectiveness of each activity can be measured and managed accordingly.

Some may protest this as just more regulatory burden. However, the UBC Staff Pension Plan has an extensive annual education and communication plan, which has been integral to the success the plan has achieved as a long-standing TB[15] that incorporates all of these elements.

Conclusion

TB-MEPPs are different than DBs and need their own policy and pension standards that are focussed on clear outcomes and based on credible research and evidence regarding the problem(s) being addressed. PBR is more appropriate for the financing-related standards for TB-MEPPs than the prescribed rules-based approach currently in place. PBR allows plan sponsors to focus on the risks inherent in their plan rather than having to comply with generic rules that attempt to work on a universal basis. Unfortunately, the direction set in the JEPPs report has been lost and the input from the CIA has been ignored in the promulgation of the current regulations for TB-MEPPs.

With there being a strong link between plan governance and member communication to sustainability, I recommend prescribing stronger governance requirements in these areas rather than relying on guidelines, and that plans establish and implement a communication policy. My hope is that these recommendations can be part of the ongoing discussion of pension standards for TB-MEPPs.

15 The UBC Staff Pension Plan has been a target-benefit pension plan since 1972 and has never reduced either accrued pensions or future pension accruals. Post-retirement adjustments were, however, reduced following the 2008 financial crisis from 100 percent of CPI to 50 percent in 2012, in line with the plan's benefits/funding policy.

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