



**THE IMPROVING PENSION REGULATORY SERVICES
(IPRS) PROJECT
2010 REPORT**

Financial Services Commission of Ontario

March 2011

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THE IMPROVING PENSION REGULATORY SERVICES (IPRS) PROJECT - 2010 REPORT

INTRODUCTION

2010 was a very significant year for pension regulation. On May 18, 2010, the “Pension Benefits Amendment Act, 2010” (Bill 236) received Royal Assent, and on December 8, 2010, two bills affecting pensions received Royal Assent – the “Securing Pension Benefits Now and for the Future Act, 2010” (Bill 120) and the “Helping Ontario Families and Managing Responsibly Act, 2010” (Bill 135). In addition, 2010 was the second full year of FSCO’s multi-year initiative to improve pension regulatory services (the IPRS Project), which has focussed on improving the way in which we carry out our regulatory responsibilities.

Under the IPRS FSCO committed to:

1. Enhance our stakeholder engagement and outreach;
2. Process defined benefit applications in a more timely manner and establish performance measures against which we will be measured;
3. Make enhancements to our pension system and database;
4. Review our inquiries and complaints handling procedures and identify opportunities for improvements; and
5. Adopt a comprehensive risk-based regulation approach to carrying out our regulatory duties.

This report summarizes our progress on each of these commitments during 2010 and sets out the next steps in the coming year and in some cases, the years to come. It also identifies the issues our stakeholders previously brought to our attention. In keeping with our commitment to greater communication, FSCO is pleased to report back on our accomplishments and progress during 2010 and to look ahead at our next steps.

ACCOMPLISHMENTS IN 2010 AND NEXT STEPS

In 2009, the first full year of the IPRS, we established a framework that we would use to carry out our IPRS commitments and began our work. In 2010, we completed some of our most important goals and made significant progress on others. We were able to achieve these goals with the support of the Ministry of Finance and our stakeholders.

FSCO can point to the following accomplishments in 2010:

Enhanced Stakeholder Engagement and Outreach

- A successful Pension Forum for all advisory committees in January, 2010 which reported on FSCO's achievements in 2009 and sought input on FSCO priorities for 2010.
- Two special meetings of our combined advisory committees to discuss proposed amendments to the Pension Benefits Act under Bills 236 and 120.
- Annual meetings with six pension stakeholder groups in March and April to seek input on pension issues, report back on FSCO's achievements in 2009, and discuss FSCO priorities for 2010.
- Special meetings with our advisory committees and stakeholder groups on the risk-based regulation project.
- Established a process for public consultation on draft FSCO pension policies and posted three policies for public comment (Defined Benefit Applications and Service Targets policy, Management and Retention of Plan Records policy, and Inquiries and Complaints best practices).
- The first webinar on the retention and management of pension plan records in November 2010, with over 1,000 participants.

Next steps:

- Special meetings to discuss proposed legislation and regulations once they are introduced.
- Utilizing advisory committees to provide input on new FSCO policies as a result of new legislation.
- Annual meeting with each stakeholder group in February – March 2011.
- Webinar on inquiries and complaints in March 2011, to be broadcast in English and French.

Defined Benefit Application Processing

- Virtually eliminated the backlog of 103 pension applications on file as of April 1, 2008.
- Implemented a new policy on processing of DB applications with service targets, which was posted on June 30, 2010 following consultation.
- Established internal tracking mechanism on FSCO performance.

Next steps:

- Continue to process new applications in accordance with new policy and attain service targets.
- Post a report of FSCO's performance in processing applications for the year.

Pension System Enhancement and Development

- Introduced a fully functional Pension Services Portal, which offers an entry point for all online communication between FSCO and plan administrators.
- Introduced electronic filing option for Annual Information Reports (AIRs) which provides administrators with the ability to file their AIR electronically in one of two formats.
- Developed user requirements for migration to new platform in 2011.
- Commenced initiative to expand electronic filing capacity for 2011.

Next steps:

- Continue work to provide plan members with access to more information about their pension plan through the Pension Services Portal.
- Make additional forms available for electronic filing – Information Investment Schedule (IIS) in April, 2011 and the PBGF Certificate and the Actuarial Information Summary (AIS) in July, 2011.
- Migrate to new .msnet platform in July, 2011.
- Commence scanning incoming documents in early 2011 as first stage in FSCO pilot project. To be followed by scanning of documents currently on-site.
- Post frequently asked questions on the electronic filing options through the Pension Services Portal in January, 2011.

Inquiries and Complaints

- Posted consultation paper on best practices for plan administrators on how to deal with member complaints and inquiries.
- Implemented enhanced tracking of general inquiries by type of issue.
- Provided an expanded range of services to stakeholders while supporting enhanced tracking of inquiries and complaints, through the use of a new pension phone queue.
- Posted information to assist plan members in making inquiries.

Next steps:

- Develop a process and mechanism by which to communicate and report on FSCO performance measures in responding to member complaints and inquiries.
- Make recommendations that will better address complaints and inquiries.
- Finalize and post best practices document for plan administrators on how to deal with member complaints and inquiries.

Risk-Based Regulation

- Framework discussed internally with FSCO staff including focus group sessions.
- Framework for the comprehensive risk-based regulation developed and revised to incorporate comments from stakeholders in December 2010.
- Updates provided at the 2010 Pension Forum and the regular advisory committee meetings.
- Two special meetings to discuss proposed framework, one in July 2010 with FSCO advisory committees and one in October with stakeholder groups.

Next steps:

- Revised draft framework to be released for public consultation – Spring 2011.
- Begin implementation of the framework in Summer 2011.
- Continue to seek feedback and suggestions from all stakeholders.

A more detailed description of the IPRS follows.

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2010 was the second full year of FSCO's multi-year initiative to improve pension regulatory services (the IPRS Project). The IPRS Project resulted from discussions with our stakeholders in the pension community as to how FSCO could improve our regulatory services and the recommendations in the final report of the Ontario Expert Commission on Pensions with respect to how FSCO carried out its responsibilities as Ontario's pension regulator.

Under the IPRS FSCO committed to:

1. Enhance our stakeholder engagement and outreach;
2. Process defined benefit applications in a more timely manner and establish performance measures against which we will be measured;
3. Make enhancements to our pension system and database;
4. Review our inquiries and complaints handling procedures and identify opportunities for improvements; and
5. Adopt a comprehensive risk-based regulation approach to carrying out our regulatory duties.

This report summarizes our progress on each of these commitments in the past year and sets out the next steps in the coming year and in some cases, the years to come. It also identifies the issues our stakeholders previously brought to our attention. In keeping with our commitment to greater communication, FSCO is pleased to report back on our accomplishments and progress during 2010 and to look ahead at our next steps.

1. ENHANCED STAKEHOLDER ENGAGEMENT AND OUTREACH

The goals of enhanced stakeholder engagement and outreach are to:

- Broaden FSCO's engagement with the pension community;
- Encourage FSCO's external stakeholders to be more active participants and contributors to the health of the pension industry;
- Ensure that FSCO's policy initiatives are responsive to the concerns of all affected stakeholders; and
- Increase the transparency of FSCO's pension activities.

There are three groups that make up FSCO's external pension stakeholders. These groups each provide FSCO with a unique perspective concerning issues in the pension community:

- Group 1 – FSCO's pension advisory committees.

- Group 2 – representative stakeholder groups (which represent pension associations, organizations, professional bodies, and advocates for larger groups, such as retirees, organized labour, consumers, and public sector pension plans).
- Group 3 – interested stakeholders, who are drawn from employers, plan members, retired members and other interested persons.

FSCO's Strategic Plan

It is essential that FSCO's engagement with external stakeholders is consistent and in step with its annual planning cycle. Under the Financial Services Commission of Ontario Act, 1997, FSCO is required to deliver to the Minister of Finance and publish by June 30th of each year its proposed priorities for the year ahead. In 2011, the development of our priorities will be included in the preparation of FSCO's 2011-14 Strategic Plan. As part of this process, we will also be developing performance measures for all parts of FSCO. We will be seeking comments on our Strategic Plan from our advisory committees and representative stakeholder groups in early 2011, and a draft of the document is expected to be released for comment in March, 2011.

Group 1 – FSCO's Pension Advisory Committees

FSCO has six pension advisory committees:

- Accounting and Assurance committee;
- Actuarial committee;
- Administrator committee;
- Investment committee;
- Legal committee; and
- Multi-Employer Pension Plan (MEPP) committee.

Members of each committee bring their professional experience in various aspects of pensions to the committee. FSCO seeks representatives of different constituencies on the committees but members serve as individuals, not as representatives of their employer or organization.

In 2009, FSCO initiated regular meetings with our advisory committees twice a year, in the spring and fall. We established a new committee, the Administrator Committee, to reflect the needs of plan administrators. FSCO also committed to greater consultation with our committees on our communications, and we established a process to post draft policies for public comment.

When we met with our advisory committees in 2009, members asked FSCO to utilize more conference calls, to continue to meet regularly twice a year, to provide members with an opportunity to raise and discuss issues of importance to them, to provide more updates on

what FSCO is doing, and to have more meetings with staff of the Ministry of Finance. They also expressed their desire to play a more active role in the regulatory policy development process.

Activities in 2010

FSCO Pension Forum and Regular Committee Meetings

In January 2010, FSCO held our annual Pension Forum for members of all our advisory committees. At the Forum, we reported back on our achievements for 2009 and sought input on our priorities for the upcoming year. Since the Pension Benefits Amendment Act, 2010 (Bill 236) had been introduced a few weeks prior to the Forum, most of the discussion about FSCO's priorities for the upcoming year centred on the legislative process and FSCO's role in it. FSCO held spring and fall meetings with each committee and provided the opportunity for members to raise issues for discussion and questions as well as providing updates on key initiatives.

Special Meetings

The past year saw the introduction of two significant bills on pension reform: the Pension Benefits Amendment Act, 2010 (Bill 236) in December, 2009, and the Securing Pension Benefits Now and for the Future Act, 2010 (Bill 120) on October 19, 2010. In both instances, FSCO held special meetings for all our advisory committees and staff of the Ministry of Finance shortly after the bills were introduced to discuss the contents of each bill and to identify gaps and omissions which could impair their effectiveness when implemented.

In addition, FSCO held a special meeting in July 2010 for all committees to seek input on the risk-based regulation project, and a special joint meeting of the Accounting and Assurance and the Actuarial committees in late December 2009 to discuss proposed changes to the accounting rules for pension plans, what the implications might be for pension regulation, and what changes would be required to the PBA regulations.

The response from all our committees has been positive and encouraging. In response to FSCO's efforts, many committee members have become more active and discussions have significantly improved. The committees are now providing input early in the process with frank, helpful suggestions to FSCO.

Committee members were especially pleased with FSCO's special meetings to review new legislation. They said that they had made a significant contribution to the process at a stage where their input could make a real impact.

Group 2 – Representative Stakeholder Groups

In 2009, FSCO met with representatives of pension organizations and associations that fall outside the advisory committee structure. These included labour groups, professional organizations, retiree groups, public sector pension plans and pension plan administrators.

They made a number of suggestions as to things FSCO could do that would assist them, including:

- Provide more information about pension issues on our website;
- Hold regular annual meetings and provide an opportunity for groups to raise issues of importance to them;
- Hold special meetings on specific issues;
- Improve transparency on policy issues and on the status of applications made to FSCO; and
- Focus on identifying at-risk pension plans and ensure that benefits are protected.

Activities in 2010

Following our initial meetings with our stakeholder groups in 2009, FSCO began to address the suggestions that they made. We have increased the number of postings on pension items and focussed on providing more questions and answers on specific issues. This was especially true when new legislation was introduced – FSCO posted announcements and links as soon as Bills 236 and 120 were introduced, as well as questions and answers pertaining to those bills. FSCO posted additional information regarding changes to the rules on locked-in accounts and consolidated all the questions on locked-in accounts. In addition, FSCO has addressed many of the concerns regarding greater transparency on applications in the defined benefit application processing project (see page 12) and has made significant progress on re-focussing plans at risk through the risk-based regulation project (see page 15).

Meetings with each stakeholder group were held in March and April, 2010. This year, we held a separate meeting with representatives of numerous unions and organized labour, and a separate meeting with FSCO's Consumer Advisory Committee, a group of mostly retirees who provide input on FSCO initiatives from a consumer perspective. All attendees welcomed the opportunity to meet with the pension regulator and expressed their desire for future meetings. FSCO reiterated our commitment to annual meetings and special meetings on specific issues.

At our meetings, the groups expressed a desire for a number of FSCO initiatives in the coming year, including:

1. An information session on the new pension legislation and regulations, once they are finalized. The sessions would cover what is included in the legislation and regulations and what FSCO policies would be needed.
2. Continuing to make more information available on our website. Specifically, they would like to be able to see proposed plan amendments and data about plans that were wound up. They were pleased with what is planned in our systems project but would like more information to be available.
3. More details about complaints made to FSCO about particular pension plans.

4. More details on our risk-based regulation project, specifically on what lessons FSCO learned from the recent financial crisis and how FSCO can respond to such challenges in the future.
5. A meeting on broad pension issues, including how the regulatory system is working.

Regarding the risk-based regulation project, FSCO held a special meeting to discuss the project for all our stakeholder groups in October 2010. The purpose of the meeting was to bring them up to date on what we had done and to seek their input on the next stages. The meeting was very well attended and members made numerous suggestions on how the project can be improved. The attendees were very pleased to be invited and to be given an opportunity to be heard.

Group 3 – Interested Stakeholders

The third group consists of interested stakeholders. This group is drawn from employers, active pension plan members, retired pension plan members and other interested persons. Recognizing that the most effective way to communicate with this group is to post draft policies and other proposed initiatives on our website, FSCO followed up on our 2009 initiatives by finalizing our public consultation process. This involves posting a draft document and inviting comments from the public for a 60-day period. All comments that are received are considered and responded to, and the comments and responses are posted.

FSCO posted three documents for public consultation in 2010 – the Defined Benefit Application Process and Service Targets policy, the Management and Retention of Records policy and the Inquiries and Complaints best practices.

Policy Outreach

A key component of the stakeholder engagement project is to develop new ways in which FSCO can communicate information to our stakeholders, especially pension plan administrators and plan members. On November 3 and 9, 2010, FSCO launched a new initiative with its first “webinar”.

The webinar was on the retention of pension plan records and documents, and over 1,000 individuals participated. Based on the results of the survey, the webinar was a success. Overall, attendees said they found the information quite useful, that the delivery of the webinar was good/excellent, and that it was very easy to follow along and participate in the webinar. In addition, the vast majority of attendees said they are very interested in attending future pension webinars. All webinars will be conducted live in English and French.

Webinars will provide a way to make more information more accessible to more people. Another is scheduled for spring of 2011 on inquiries and complaints. FSCO is committed to

holding at least two webinars a year and is also looking to develop other kinds of policy outreach on specific pension issues.

Next steps in 2011

The 2011 FSCO Pension Forum for our advisory committees was held on January 17, 2011. In addition to discussing FSCO's priorities for 2011 and FSCO's strategic plan, we discussed what the pension community can do to expand pension coverage in Ontario, with special attention to encouraging defined benefit plans through pension innovation.

Regular meetings of the advisory committees will be held in the spring and fall of 2011. When new pension legislation and regulations are introduced, FSCO will hold special meetings to discuss the proposed changes and seek confidential feedback, which will be shared with the Ministry of Finance. In addition, FSCO will seek input from the advisory committees as to what new regulatory policies should be developed to reflect legislative changes and which existing policies need to be revised.

Once new pension legislation comes into effect, FSCO will hold information sessions on the new provisions for our stakeholders. The information sessions will discuss the changes to the PBA that are contained in Bills 236 and 120 and the new rules regarding the division of pensions when a spousal relationship breaks down. We will also hold a session on the new agreement among regulators regarding the regulation of pension plans with members in more than one jurisdiction once it is finalized and signed.

FSCO will hold another webinar in spring, 2011. Details on the topic will be available closer to the event date.

2. DEFINED BENEFIT APPLICATION PROCESSING

FSCO committed to improving our defined benefit (DB) application process to eliminate a backlog of key DB pension plan applications and to establish new processes and service targets for DB pension applications.

We are pleased to report that 2010 saw the virtual elimination of the backlog: of the 103 applications that were outstanding as of April 1, 2008, there are only three remaining, and those are awaiting court resolution of specific outstanding issues.

On June 30, 2010, FSCO posted a new policy on processing DB applications. This policy was the result of an extensive consultation process including a public consultation. The new process became effective on June 30, 2010, the day of the posting.

The new service targets apply to any new applications FSCO receives after June 30, 2010.

The new policy streamlines the process for these key applications and includes performance targets that must be met for each type of application. Now that the backlog has been eliminated and a new process is in place, FSCO is confident that we will be able to handle the number of new applications that are likely to occur once amendments to the PBA come into effect.

Next steps in 2011

In 2011, FSCO will process new applications in accordance with our new policy, including attaining service targets. FSCO will post our record on reaching the new service targets each year.

3. PENSION SYSTEM ENHANCEMENT AND DEVELOPMENT

The goals of FSCO's pension system enhancement and development are:

- to enhance and redevelop FSCO's system in order to provide greater usability and functionality for all stakeholders;
- to expand FSCO's database on pension plans and pension stakeholders; and
- to implement a new electronic filing capacity for all required filings and applications.

In March, 2010, the Pension Services Portal came on line. The portal allows administrators access to information about their plan and offers an entry point for electronic filing. The PSP is the mechanism through which administrators will be able to view the status of any application and will be able to retrieve their filed information at any time.

Electronic filing through fillable forms became available on September 9, 2010. Since that time, FSCO has received over 700 requests for filing extensions so that filing could be done on fillable forms. Since this option became available relatively late in the year, approximately 10% of registered plans chose to file in this manner. In 2011, we anticipate that more plans will opt for electronic filing for the 2010 filing year.

On March 31, 2010, FSCO announced the new electronic filing option for AIRs. This option provides administrators with the ability to complete their AIR using an online form, electronically in XML format, or in paper format. As a result, there are now three ways to file AIRs electronically:

1. Uploading an Extensible Mark Up Language (XML) file containing AIR information to the portal;
2. Transferring an XML file that contains AIR information to FSCO via a secure File Transfer Protocol (FTP) access portal; or

3. Completing and submitting an online fillable form on the portal.

The ability to file electronically allows administrators to save time by not having to complete the AIR in paper format; to submit AIR data for one or more pension plans in a single electronic file; and to transfer their files to FSCO through a secure electronic channel.

Next steps in 2011

FSCO intends to make more forms available for electronic filing in 2011 - the Information Investment Schedule (IIS) in April, and the PBGF form and the Actuarial Information Summary (AIS) in July. As this occurs, we anticipate that more plans will opt for electronic filing for the 2010 filing year. In addition, FSCO will be migrating to the new ms.net platform in July 2011. This will provide greater power for better and faster filing, and will allow for more secure filing. It will also enable better plan viewings on a secure site.

FSCO will also be undertaking a pilot imaging initiative, which will enable plans to do their filing with .pdf documents. The first phase will begin in 2011 with scanning of new incoming mail, followed by scanning of on-site documents. We will then consider the possibility of scanning historical information.

4. INQUIRIES AND COMPLAINTS

The overall goal of our effort to address inquiries and complaints is to establish improved procedures for processing, tracking and reporting on all inquiries and complaints from pension plan members regarding their pensions, pension information they have received or should have received, and their communication with their plan administrator. To achieve this goal, FSCO has taken a number of steps in 2010 in furtherance of these objectives. The Pension Division database has been improved so that it now can track member inquiries. FSCO has implemented a general inquiry transaction to track inquiries by type of issue, which assists in issues management. We also implemented a pension phone queue to capture statistics and a new management report for keeping track of inquiries and complaints. And, FSCO has developed and posted enhanced web postings for plan members on the role of the pension plan administrator, the role of FSCO and more detailed information on the pension complaint process.

As of the end of October, 2010, FSCO has received 12,525 pension inquiries. The top issues we have dealt with have been:

1. interpretation of the legislation and regulations;
2. access to information about FSCO pension policies;
3. clarification of the rules on locked-in accounts;
4. information on required filings; and
5. member rights under the PBA.

In addition, FSCO has received over 30,000 inquiries regarding financial hardship unlocking.

On June 30, 2010, FSCO posted general information about inquiries and complaints for pension plan beneficiaries (individuals who have benefits or other entitlements under a pension plan), which provides information and guidance on:

- Accessing plan records and information;
- Who to contact for pension inquiries and complaints;
- How to contact the pension plan administrator;
- How to send an inquiry or complaint to FSCO;
- Responsibilities of the pension plan administrator; and
- FSCO's role and responsibilities relating to pension plans.

FSCO has drafted a best practice guideline for plan administrators on how they should deal with member complaints and inquiries. This has been reviewed by FSCO's advisory committees and was posted for public consultation.

Next steps in 2011

FSCO will develop a process and mechanism by which to communicate and report on our performance measures in responding to member complaints and inquiries. Based on enhanced reporting, we will make recommendations that will better address complaints and inquiries. FSCO will finalize and post the best practices document for plan administrators on how to deal with member complaints and inquiries.

5. RISK-BASED REGULATION

FSCO will adopt a comprehensive risk-based approach to carrying out our regulatory duties of proactive monitoring, auditing, inspecting and investigating plans whose profiles, sponsors' profiles or sectoral location suggest that they may be at risk of failure or of significant underfunding. In addition, FSCO has expanded and updated its existing systems for monitoring risks, to ensure that these systems are designed and administered by expert staff, and supplement them with other strategies for detecting plans at risk. FSCO will be empowered to undertake remedial measures based on the results of its proactive monitoring.

In 2009, FSCO initiated a project with the goal of developing a framework for risk-based regulation (the "framework") that would consider the broader range of pension plan risks, including those related to governance, risk management, operations and sponsor-related risks. As a starting point, FSCO retained PriceWaterhouseCoopers to develop the framework, a first draft of which was completed in early 2010.

The framework provides for a base level of supervision across all pension plans including a focus on industry education, promotion of best practices, and monitoring of risk indicators. Above this base level, the framework directs resources to those plans that are exposed to or exhibit greater risks. This approach is intended to help FSCO more effectively manage the risk of pension plan failure and optimizes the use of regulatory resources.

The objectives for FSCO's risk-based regulation of pensions are as follows:

- Regulation should enhance the security of plan beneficiaries' benefits.
- Regulation should reduce the risk of situations which may lead to claims on the Pension Benefits Guarantee Fund (PBGF);
- Regulation should ensure compliance with the legislation, in particular ensuring that FSCO discharges its responsibilities set out in the Pension Benefits Act; and
- Regulation should encourage sponsors and plan administrators to adopt good governance, risk management and business practices.

Following extensive internal review, FSCO began the process of external consultation on the framework with a presentation at the Pension Forum in January 2010 and the annual meetings of stakeholder groups. This was followed up with more detailed discussions at the spring meetings of the six advisory committees, where it was agreed that a special meeting for all interested members of the committees would be called to seek input on 31 specific questions regarding the framework and the next steps. This meeting took place in August, 2010 and resulted in numerous comments and suggestions. The next step was an invitation to meet with interested members of FSCO's pension stakeholder groups, which took place in October, 2010 and produced additional positive responses.

Next steps in 2011

FSCO will release a revised paper on risk-based regulation for public consultation in early 2011. Taking into account comments received from stakeholders, we will begin implementation of the framework in June, 2011. FSCO will continue to seek feedback and suggestions from all stakeholders.