



**THE IMPROVING PENSION  
REGULATORY SERVICES PROJECT  
2011 REPORT**

**Financial Services Commission of Ontario**

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## INTRODUCTION AND OVERVIEW

The Improving Pension Regulatory Services (IPRS) project is FSCO's response to some of the conclusions in the report of the Ontario Expert Commission on Pensions (OECF) which identified areas where FSCO could strengthen its pension regulatory services. In its final report, the OECF recommended that FSCO increase its engagement and consultation with stakeholders in the pension community; improve the response times for applications for defined benefit pension plans and develop transparent performance standards; enhance the functionality of pension data and the pension data system; and promote the risk-based monitoring of pension plans.

FSCO began to address these recommendations in 2008 by holding extensive consultations with our stakeholders in the Ontario pension community. In 2009, we established a framework by which we would carry out the five parts of the IPRS and began our work.

In 2010, we completed a number of goals, made significant progress on others, and launched the risk-based regulation project which will be a key part of our regulatory activity.

Our activities in 2011 reflected our success in incorporating into FSCO's standard operating procedure some of the innovations and improvements that came out of our IPRS initiatives. We continued to develop the risk-based regulation project and reached milestones in the systems development project. As well, the stakeholder engagement initiative entered a new phase with greater involvement of our advisory committees and stakeholder groups in FSCO's pension policy development. In addition, we established our webinars as a key part of our communications program.

As our accomplishments increased, so did our stakeholders' expectations. In 2011, stakeholder groups no longer asked for increased consultations, greater involvement, and better communication from FSCO; they acknowledged that we were meeting those demands. Instead, the requests became more pension-specific. They asked for greater disclosure of specific information in pension plans to more people, more detailed explanations of the new legislative requirements, expansion of our website, and additional changes in the legislation. FSCO's challenge is to respond to this new phase of the IPRS.

Under the IPRS FSCO committed to:

1. Enhance our stakeholder engagement and outreach (now the Stakeholder Engagement Project);
2. Process defined benefit applications in a more timely manner and establish performance measures against which the processing will be measured;

3. Make enhancements to our pension system and database (now the Systems Enhancement Development Project);
4. Review our inquiries and complaints handling procedures and identify opportunities for improvements; and
5. Adopt a more comprehensive risk-based regulation approach to carrying out our regulatory duties.

In keeping with our commitment to greater communication, FSCO has prepared this report to summarize progress on each of our commitments in the past year and set out next steps. This report identifies those initiatives that have been incorporated into our standard operating procedure and discusses the issues our stakeholders brought to our attention this year and how we have responded. And it looks ahead to challenges we are likely to face in a difficult time.

## **1. STAKEHOLDER ENGAGEMENT PROJECT**

The goals of the stakeholder engagement project 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.

### Meetings with stakeholders

FSCO's external stakeholders consist of professional pension advisory committees, representatives of various interest groups in the pension community, and interested persons in the public at large. We successfully reached out to all these stakeholders through a combination of regular meetings, special working sessions where input was sought on specific issues, two well-attended webinars, and a redesigned website that provides greater access to plan-specific information and more information about pensions than in any previous year.

During 2011, FSCO held bi-annual regular meetings with our six advisory committees and the annual Pension Forum. The Pension Forum took place in January and featured a useful and interesting discussion on how to promote pension coverage. In the early spring, we met with representatives of retiree groups, public sector pension plans, pension organizations and associations, and organized labour groups to discuss pension issues.

There were two significant opportunities for in-depth consultation with our stakeholders: the new rules for the valuation and division of pensions on the breakdown of a spousal relationship (commonly known as the family law rules), and FSCO's risk-based regulation project. When the

draft regulations for the family law rules were released in June 2011, FSCO held a special meeting for members of our advisory committees to review the regulations and offer suggestions for changes. The meeting was attended by staff of the Ministry of Finance policy group and was well received.

The new family law rules required the development of new Superintendent-approved forms, which will be required for all applications and valuations. FSCO struck a special working group composed of advisory committee members to assist staff in developing these forms. Later in the year, FSCO assembled yet another group, composed of members of the interest groups, to review the draft forms. The work called for a significant amount of preparation on the part of the group members. Their involvement proved that FSCO's efforts to seek input at an early stage was essential.

The second opportunity for in-depth consultation was the risk-based regulation project, which will be discussed on page 8.

#### WHAT OUR STAKEHOLDERS ASKED FOR AND FSCO'S RESPONSE

<b><i>Stakeholders asked for:</i></b>	<b><i>FSCO's response:</i></b>
Greater clarity on the expected outcomes of the risk-based regulation initiative – risk rating, definite standards ( <i>pension organizations</i> ).	The pilot projects on financial risks and operational risks, which will provide greater clarity.
An explanation of new legislation and regulations, especially on the new family law rules ( <i>pension organizations and retiree groups</i> ).	FSCO will hold information sessions for our stakeholders when the legislation and regulations are finalized. FSCO held two webinars on the family law rules in November 2011 and will provide additional information in the future.
A more “user-friendly” website ( <i>retiree groups</i> ).	Our new website launched in July 2011 was well received.
Greater access to plan information for retired plan members ( <i>retiree groups</i> ).	As more documents are filed electronically, FSCO will make more information available.
Earlier regulatory involvement when we become aware that a plan sponsor is facing economic difficulties ( <i>retiree groups</i> ).	Will be built into FSCO's risk-based regulation initiative.
Reassurance that the risk-based approach will not single out a particular type of pension plan or require detailed information beyond what is currently provided ( <i>public sector plans</i> ).	Plans will not automatically be given a higher risk just because they are a particular type. We will not require excessive information but higher risk plans may have to provide more details about certain aspects.

<b><i>Stakeholders asked for:</i></b>	<b><i>FSCO's response:</i></b>
Reassurance that FSCO will ensure that the identity of individuals who make complaints is protected ( <i>labour groups</i> ).	FSCO will delete any reference to an individual's name and ensure that our data system maintains confidentiality.

### Webinars

Following up on our initial webinars in 2010, FSCO held two successful webinars in 2011. In April, we hosted a webinar on developing a policy for handling complaints and inquiries, and in November we hosted a webinar on the new rules for the valuation and division of pensions on spousal breakdown which came into effect on January 1, 2012. Both were very well attended, with 470 registering for the first and 792 for the second. There were so many registrants for the family law webinar that a second was added. Both webinars were made available in English and French.

Reaction to the webinars has been extremely positive. FSCO will continue to use webinars as a key channel in reaching our stakeholders and the public. Two more webinars will be held in 2012.

### Webcasts

FSCO has begun work on developing webcasts on specific topics. These will be shorter than a webinar and will not be interactive. Rather, the presentation will be recorded and made available to anyone through the website.

### FSCO Website

FSCO re-launched its website on July 1, 2011, and featured enhanced access to pension information. During 2011, FSCO posted more information about pensions than in any previous year, with 113 postings.

The work of the Stakeholder Engagement Project is complete and the initiatives undertaken have been incorporated into FSCO's regular operating procedure.

## **2. DEFINED BENEFIT APPLICATION PROCESSING AND SERVICE TARGETS**

In 2011, FSCO eliminated the backlog of outstanding defined benefit plan applications that were on file April 1, 2008. FSCO is pleased to report that we are now processing applications in keeping with our new policy that came into effect in 2010 and that we are meeting the service targets that are part of our commitment.

The following table summarizes our responses to applications in 2011:

<b>Application Type</b>	<b>Applications Received</b>	<b>Median number of days to close a complete and compliant application</b>	<b>FSCO's Service Target</b>
Wind Ups – Full	188	47	120 days
Wind Ups – Partial	18	27	120 days
Asset Transfers s. 80 (successor plans)	8	53	120 days
Asset Transfers s. 81 (mergers)	13	23	120 days
Surplus Refunds – Wind Up	5	98	150 days
Surplus Refunds – Continuing	0	-	150 days
Employer Overpayment Refunds	15	41	90 days
Member Contribution Refunds	31	8	60 days

FSCO will continue to process applications in accordance with our policy and attain our service targets. The DB application processing project has now been completed and the service targets are included in FSCO's standard operating procedure.

### **3. SYSTEMS ENHANCEMENT DEVELOPMENT PROJECT**

The goals of the pension Systems Enhancement Development Project (SEDP) 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.

The SEDP entered a new phase when the Pension Services Portal came on line in March 2010. The portal provides an entry point for plan administrators and their agents for electronic filing of documents and communication. The portal is the mechanism through which administrators and their agents can view the status of any e-filing and can retrieve their filed information.

In 2010, administrators were able to file Annual Information Returns (AIRs) electronically in fillable forms. The ability to file forms electronically was significantly expanded in 2011 as the Investment Information Schedule (IIS) came online in May, and the Pension Benefits Guarantee Fund (PBGf) certificate came online in August. Because actuarial valuation reports and

financial statements are not standardized forms, those forms could not come online until we were able to expand our ability to image documents (see next paragraph). On December 21, 2011, the Actuarial Valuation Report (AVR) and the Actuarial Information Summary (AIS) became available on the portal. The AVR, AIS and the Financial Statements (FS) can now be filed electronically. Now that all regular filings can be completed online, as a part of its move to electronic filings, FSCO intends to make all required electronic filings mandatory in 2013.

Another part of the SEDP is the move toward expanded imaging of documents. A test project commenced with the scanning of new documents received for one pension officer's allocation. In the future, all new documents received will be scanned. At that point, FSCO will consider how to scan on site and historical documents. This will be of great assistance in serving individuals who need to inspect plan documents, especially those outside of Toronto, as scanned documents can be copied onto a disc and sent to the individual. Eventually, imaged documents will be accessible through the portal with the issuance of a temporary access account.

As FSCO moves ahead with the implementation of MS Dynamics for all business areas, the SEDP will continue to work closely with IT to ensure that all business and stakeholder needs are met through MS Dynamics and any necessary development.

FSCO has continued to seek input from our stakeholders with respect to how the changes that have been introduced are working. Senior staff who are involved with the SEDP attend all meetings with our stakeholders, provide an update on the project, and invite comments, questions and suggestions on improving our work.

#### **4. INQUIRIES AND COMPLAINTS PROJECT**

Significant progress was made during 2011 on the Inquiries and Complaints Project. FSCO now captures data related to inquiries and complaints, and prepared a best practice guideline for plan administrators on developing a policy to deal with member complaints and inquiries. The guideline was posted to FSCO's website in April 2011. That same month, FSCO began posting information about complaints received, and inquiries and complaints was the subject of a FSCO webinar in March.

In 2011, FSCO received a total of 12,170 inquiries. The average number of days it took to address an inquiry was 6 days, and the FSCO service standard is 15 days.

In 2011, FSCO handled 276 complaints. The top five complaint issues were:

1. Accuracy of benefit calculations;
2. Content and accuracy of annual pension statements;
3. Timeliness of termination statements;
4. Status of applications filed with FSCO; and
5. Interpretation of plan entitlements.

To assist plan members in understanding their pension rights and how to make complaints and express their concerns, FSCO has prepared a Pension Tool Kit, which is scheduled for posting in March, 2012.

With respect to pension general inquiries that are directed to FSCO, additional resources have been added to the Pension General Information (GI) line. Starting in early 2012, the Pension Plans Branch will fully utilize these additional resources and have three pension staff available daily to answer any pension-related general inquiries. This will result in shorter wait times on the Pension GI line, increased first point of contact resolution and overall improved stakeholder service. There will be ongoing reporting with the OPS Quality Service Delivery Team to ensure our responses meet the standard for the OPS.

When the Pension Tool Kit is published, the inquiries and complaints project will be complete.

## **5. RISK-BASED REGULATION**

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

- 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.

The risk-based regulation project picked up where it left off in 2010 by posting a consultation paper in March 2011 describing the proposed design of the risk-based regulation framework.



The core of the framework is a Regulatory Response Model, which includes a trigger mechanism based on readily available information (risk indicators) and supported by a plan specific assessment process to identify plans posing the greatest risks. Both the likelihood and impact of risk are taken into account in the risk assessment process.

The Framework recommends that a tool be developed to present the risk indicators through taking quantifiable/measurable risk-based metrics and presenting these in an appropriate format. The primary purpose of this risk indicator tool is to provide an initial pre-screening to establish a preliminary assessment within our Regulatory Response Model. The tool will highlight potential key risk areas for further analysis and will be used to prioritize our regulatory activities. It will also support staff in the next levels of review (Tier 1 and 2) within the Framework.

Plans will be selected for Tier 1 reviews based largely on the outcome of the risk indicator tool. The Tier 1 review is a basic assessment of a plan's risk exposure in terms of probability and impact. The Tier 1 review will consider the financial risks (funding risk and investment risk); the operational risks (administration risk and governance risk); and industry and sponsor risks. Judgment will be applied to determine what risks to review in specific cases and to what extent.

A Tier 2 review involves a more comprehensive approach and considers the risks in greater detail, taking into account the plan's specific circumstances. A plan is escalated to Tier 2 for a detailed risk assessment when the Tier 1 review establishes that a plan exhibits high risk characteristics and merits a more in-depth review within the Regulatory Response Model. Plans may also be subject to a Tier 2 review if warranted by the circumstances.

On April 1, 2011, FSCO hosted a special meeting for interested members of our six advisory committees to review the consultation paper. The meeting was well-attended and FSCO received numerous suggestions for clarifications and additions. In addition, FSCO received thirteen stakeholder submissions on the consultation paper published in March 2011 and held special meetings with three stakeholder groups. FSCO incorporated many comments and suggestions, and posted the revised Framework on November 22, 2011.

In July 2011, we completed the development of the detailed design features including the risk indicators, Tier 1 process, Tier 2 process, user requirements, key performance indicators and implementation plan. We launched a pilot project to conduct Tier 1 reviews focusing on financial risks (funding and investment), which will be followed by the launch of a similar pilot project focusing on operational risks in 2012.

## **LOOKING AHEAD**

The financial crisis of 2008 significantly reduced the value of pension assets in almost all pension plans. With plans still recovering from that shock, they were affected by the global market volatility of 2011. In addition, longevity risk, a large generation preparing to enter

retirement, and increasing fears about retirement security increased uncertainty in the pension community.

At the same time, FSCO faces the challenges that confront all parts of the government in a time of constraint. We will need to find new ways to carry out our regulatory responsibilities with fewer resources while maintaining high standards of service for our stakeholders. FSCO will need to devote our resources on those issues that have the highest risk and require the greatest attention. We remain committed to implementing the goals and objectives of the IPRS in this challenging environment.