

COLLEGE AND UNIVERSITY RETIREE ASSOCIATIONS OF CANADA (CURAC)

2007 ANNUAL CONFERENCE AND AGM

FREED ORMAN CONFERENCE CENTRE

UNIVERSITY OF WINDSOR

WINDSOR, ONTARIO

May 23-25, 2007

Windsor Session I

THURSDAY, MAY 24, 2007

9:45 – 10:30 a.m.

Protecting Pensions

Moderator: Bill Miller (Windsor)

Panel:

- Bill Miller (Windsor)
- Bill Watson (Mercer Consulting Inc., Principal Actuary)
- Paul Owens (Colleges of Applied Arts and Technology Pension Plan)

Presentation Summary by Colin Stuttard

Bill Miller (Windsor): “*Pension Plan Governance*”

In his overview of Pension Plan Governance, Bill noted that pension plans embody promises of **entitlements** (for beneficiaries under the plan), a chosen **funding policy**, and **provisions for governance**. The latter was the focus of Bill’s talk.

Key questions regarding governance of university pension plans are “Who is in charge? Whom do we blame when something goes wrong? Who is responsible for the discharge of fiduciary duty? Who exercises discretionary authority and control over the plan or plan-related assets, or both?” Fiduciaries are in a power relationship with the beneficiaries, and this is the highest level of obligation at law. Commonly there are three areas of fiduciary responsibilities associated with a pension plan – governing, managing, and operating. This simplifies the accountability structure of pension plans.

The governing fiduciary ultimately is responsibility of the university’s Board of Governors, although, as best practice, the associated duties are usually delegated to the managing fiduciaries. The Board retains the important role of pension management oversight and monitoring via a standing committee, the Board’s Pension Committee, set up to assist the Board regarding pension matters. Members of this committee need to understand the impact of investment decisions, taking advice from investment consultants; evaluate performance metrics using external benchmarks; and verify compliance with pension legislation. They also undertake periodic self-assessment of their governance. Key duties: retain responsibility for approving long-

term pension fund objectives; delegate strategic asset management to managing fiduciary, and day-to-day activities to operating fiduciaries.

The managing fiduciaries oversee and supervise pension management, provide advice to the governing fiduciary, and usually employ the operating fiduciaries. Managing fiduciaries are university employees, typically the VP Finance and Administration, Director of Finance, and Director of Human Resources. But who actually manages the pension fund? Often there is a collective description of people, but this does not provide a good accountability structure. So, there should be a Pension Management Committee.

Operating fiduciaries have extensive professional knowledge and skills necessary to operate on a daily basis. They comprise investment managers who invest assets, and custodians who hold the assets for beneficiaries. Normally, they would have fee and service agreements that should spell out their fiduciary responsibilities. They meet frequently and are responsible for rapid action and detailed reporting.

Non-fiduciary agents, such as actuaries, auditors, investment consultants, and lawyers, also receive fees for giving professional advice to the fiduciaries. They provide professional services following well-established protocols, but exercise no discretionary control over pension matters.

The governing fiduciaries (Board members) need extra diligence in assessing delegated work, and because of the complexity, there must be an accountable reporting structure to avoid drift. To make informed decisions based on advice given, they need a clear understanding of the duties and required standards of care (fiduciary level), knowledge of key actuarial, investment, organizational, and regulatory principles. They also need knowledge of governance, funding, investment and accounting policies, and performance metrics. They have to provide oversight and monitoring of management and plan performance. In short, demonstrate reasonable and prudent behaviour. Since no one person embodies all of this, it is important for the Board to provide learning and periodic self-assessment opportunities for Board members.

Best governance practices require clearly stated objectives; independence of the governing body from the plan sponsor; separation of governance from administration; very clearly-defined roles, responsibilities, policy, fiduciary duties, reporting structure and requirements; and clearly defined organizational structure. Redundancy is a good thing, including flow charts – you can't have too much. A key point is that tasks may be delegated, but not the responsibility. We need this fiduciary level of diligence in decision-making, which means being reasonable and prudent. We try to ensure that adequate knowledge and skill sets are present; there are risk identification and mitigation strategies (very critical); internal controls and performance metrics are established; and there is a conflict of interest policy (it would even be good to have a code of ethics). Also key is committee effectiveness; meetings should not simply hear reports. Reports should be provided in advance so that meetings involve comprehensive discussions leading to subsequent actions. Other governance functions are to ensure compliance with legislation and the requirements of regulatory bodies. Extra diligence is needed in the supervision of delegated work. And, good governance requires periodic self-assessment of the governing process.

Thus, the first key player in pension plan governance (at UW) is the Board of Governors who sponsor the Plan. However, they also administer the Plan, and provide governance oversight and monitoring. Good governance requires a degree of independence (of the Plan administration from the sponsor), so it's complex to see how to do this and make sure the governance itself does not support a conflict of interest. Next is the Board Pension Committee who assist the Board in its duties, and normally there are Pension Plan Committees defined in the Plan itself. These include a Retirement Committee, which may have any of a wide range of mandates – from just showing up, to being the Plan administrator, which is totally inappropriate. Retirement committees usually answer specific questions, such as eligibility of a member in the Plan. They have no discretionary authority. Other players are: Custodial Trustees, who you hope are honest; Investment Managers, who you hope are competent – they always have impeccable credentials and ready explanations for poor investment results despite excellent strategies and so on. Pension Consultants, Actuaries, Auditors, Advisors, and other Agents complete the list.

Outside the governance structure are pension plan participants, and these need to show activism. They include pension negotiators in collective bargaining, who often must make rapid decisions without adequate knowledge or information. Pension negotiators may seem to have discretionary power in setting pension terms or the disposition of assets like pension fund surpluses, but they really don't, because ultimately the Board must approve the final contract and the Board has the fiduciary obligation with respect to the treatment of participants. Sometimes in negotiations provisions may be advanced that would put retirees at a disadvantage versus active members. So there is a need to maintain an even hand, meaning fair and equitable treatment between active members and retirees and beneficiaries (these are important).

Bill concluded with a summary of the critical roles in pension governance, and a review of the key committees at the UW, noting that a governance review was in progress. Bill intended to recommend that the Board establish a specific Pension Management Committee to rectify one of the deficiencies in the current structure of pension governance at the University of Windsor. He also gave his personal wish list for pension governance: prudence, openness, transparency, accountability, compliance (with legislations and regulations), and performance; and noted that research showed a positive correlation between governance of the institution and the governance of its pension plan.

Bill Miller (University of Windsor Retirees Association) is a retired member of the University of Windsor Department of Electrical and Computer Engineering and since 2005 has been a member of the University of Windsor Board of Governors' Pension Committee. He is also a former chief negotiator for the Faculty Union.

Summary by Professor Colin Stuttard
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