Fiduciary of a Defined Benefit Pension Plan – The Need To Act

Fiduciary. It sounds like a bad word, doesn't it? And scary too. It can be if you don't take the time to understand what it means to you. If you are in a role where you have oversight or input into your company sponsored Defined Benefit Pension Plan you need to know what it means. Embrace your inner fiduciary; it's not that hard if you follow a few simple steps.

Here's what Wikipedia has to say about a fiduciary:

> >> *A fiduciary is a legal or ethical relationship of trust between two or more parties. Typically, a fiduciary prudently takes care of money for another person. One party, for example a corporate trust company or the trust department of a bank, acts in a fiduciary capacity to the other one, who for example has funds entrusted to it for investment. In a fiduciary relationship, one person, in a position of vulnerability, justifiably vests confidence, good faith, reliance and trust in another whose aid, advice or protection is sought in some matter. In such a relationship good conscience requires the fiduciary to act at all times for the sole benefit and interest of the one who trusts.* <<

Hmmm. Sounds like a lot to ask of someone who has to deal with the myriad of things a Human Resources or Finance professional needs to handle day-to-day. There's a business to run after all. But the thing is, your employees are the "vulnerable" party in the group retirement relationship - you are a fiduciary and they are relying on you to look after their interests.

Let's step back a bit and look at the big picture. Governments are sending a message that private plans are an integral part of the retirement landscape in Canada. Old Age Security is being delayed - benefits will start at age 67 rather than age 65. While there is broad acceptance that there is a looming retirement crisis, the Canada Pension Plan is not being expanded. The message from all levels of government is being heard loud and clear. It's on the private sector to make up the shortfall. Your company has done the right thing by putting a plan in place. It should be applauded for that - not all employers have put a plan in place for their employees. But just putting a plan in place is not enough. Good governance must be practiced to allow the plan to realize its goal, to help members to replace a reasonable percentage of their pre-retirement income.

What does a good fiduciary look like?

First, let's look at how a typical defined benefit pension plan is managed. Perhaps once or twice a year you meet with your company leaders, plan advisor or consultant, and the plan investment manager. You review a series of investment, actuarial and government reports.. Investment returns seem to fluctuate wildly from year to year; the markets seem to have a mind of their own. Interest rates are low, markets aren't performing, people are living longer, and solvency liabilities and required monthly cash payment keep rising. What is one to do?

Your company did its part by putting a plan in place? That ought to be enough, right? If it ever came to court, we doubt that a judge would see it that way. When one or more of your employees wants to retire at age 65 and can't because their pension income is not sufficient, blame will be cast, fingers will be pointed. Your employee may say, "my company said I had a pension plan, I thought I could retire, nobody told me I wouldn't have enough money. Why didn't someone tell me?"

Are we seeing this scenario happen frequently? Not yet. But the baby boomers are coming up to retirement age so it will happen. And it will happen in droves. Guaranteed.

How can you reduce your fiduciary risk?

- Have CBA assess what you are doing today. We'll do a comprehensive review of all of your governance and fiduciary accountabilities and let you know where you stand. You can't act on what you don't know.
- Have CBA map your current state to industry actuarial, administration and compliance best practices. At CBA this is what we live and breathe, this is what we do. We can let you know in each key area of accountability how you can improve. We'll lay out a roadmap that illustrates how you can fulfill your fiduciary duty as you help your employees reach their goal of a comfortable retirement.
- Act. Partner with CBA to implement a framework that allows you as an employer to meet your fiduciary duty**.** We all know there are tremendous challenges in the Canadian Pension landscape. Because we know we must act. To do otherwise would be to fall short of the responsibility that has been entrusted to you.

The definition of a fiduciary is a bit murky in the pension landscape. If you take the steps above is it a guarantee that you have fulfilled your duty? No, unfortunately there are no explicit guarantees. The current pension landscape has multiple challenges including funding shortfalls, demographic and longevity issues, and a challenging investment environment. These end up creating issues for your business. But, it's better to understand and deal with these issues than to avoid of defer them.

If you play a role in overseeing your company pension plan and your company is sued by an employee or group of employees because they didn't have an adequate pension, who would you rather be? If you had to stand in front of a judge or your board of directors, who would you rather be? Would you rather be the one that made sure they understood the fiduciary role they had to play in managing the company pension plan, assessed the gaps against best practices, and took action to close those gaps? Or would you rather be the person who said, "I didn't know what I was supposed to do"?

CBA can help you and your organization understand and reduce its fiduciary risk.

We should talk.