

Ontario Investment Policy — Changes and Proposals

Pension plans are required to maintain a Statement of Investment Policies and Procedures (SIPP). The purpose of the document is to set out the scope and nature of available investments for the plan—this includes reference to investment limitations that are prescribed by Provincial and applicable Federal investment regulation for pension plans. The SIPP will also outline the investment fund expectations, and depending on the nature of the plan (Defined Benefit vs Defined Contribution), will provide either the asset mix ranges of the plan or the scope of available investment options for member selection.

SIPP Update

The SIPP is required to be reviewed on an annual basis—this responsibility is typically undertaken by the plan trustees or pension committee. Changes to funds; fund expectations; target asset mix; and default funds are just a few of the key update items. The SIPP is also to be updated for technical amendments applicable to allowable investment options.

One of the protective restrictions applicable to pension plans relates to concentration risk of securities—specifically the limitation that the fund cannot hold more than 10% of assets at book value in any one security. Federal investment guidelines, which are also applicable to Ontario registered plans, have contained an exemption where the securities are issued by the Government of Canada or a Province. Effective March 7, 2014, this exemption has also been extended to securities issued by the Government of the USA.

Pension funds have long since expanded their investment focus to non domestic equities—the quest for additional fixed income returns has extended the investment scope to foreign credit opportunities. The amendment of investment regulations to allow US issued debt above the 10% limit will enable more investment latitude for pension plans and

should be included in SIPP amendment considerations.

SIPP Proposals

Pension plans used to be required to file a copy of their SIPP with the Provincial regulator annually — this requirement was dropped in 2001 (but plan administrators were still required to maintain a SIPP and review it annually). The Budget in 2011 reintroduced the requirement of having to file a SIPP with the regulator. Changes to the SIPP would also have to be filed within a 90 day period and the document would have to be available for inspection (by plan members) through the regulator. Availability of the SIPP to plan members is a logical requirement and an option that is recommended from existing best practices expectations.

In addition, the 2011 Budget introduced the requirement for a SIPP to “reveal whether, and if so and how, socially responsible investment practices are reflected in the plans approach to investment decisions”. While some SIPPs currently address environmental, social, or governance factors (ESG) the requirement to indicate if this is considered in the investment process will trigger some discussion by investment committees and plan administrators.

The proposed changes for SIPPs are not approved as at this time and are not expected to be effective before 2015 as comments on these proposed amendments to the Pension Benefits Act (PBA) are open until June 16, 2014.

Other significant amendments being considered for the Ontario PBA include provision of annual statements for retired and former members and availability of direct payments from Defined Contribution pension plans to retirees. Currently defined contribution pension plans cannot pay pensions directly from the plan—these provisions are also open for comments until early June 2014.



PROTEUS
RETIREMENT PLAN GOVERNANCE

www.proteusperformance.com

- 250 Ferrand Drive Phone: 416 421 3557
- Suite 303 Fax: 416 421 1348
- Toronto, Ontario M3C3G8 Toll Free: 800 360 6363

EST. 1994 — 20 YEARS OF “VALUE, KNOWLEDGE, SERVICE”

Proteus Performance Management is a premier provider of pension governance and cost efficiency to Canadian Pension and Investment Funds. We create an environment of participation and teamwork in a selection & review process which focuses on specific client needs. The firm maintains itself free of conflicts of interest and in all cases acts in the best interests of the client.