

## Human Resources Legislative Update

### OSFI Publishes Guidance Note for Member Choice DC Plan Default Investments

**Date:** March 28, 2018

The Office of the Superintendent of Financial Institutions (OSFI) has published a new Guidance Note providing its interpretation and expectations relating to the requirements for the default investment selected by the administrator.

The Guidance Note ([Default Option for Member Choice Defined Contribution Plans](#)) relates to defined contribution (DC) accounts or additional voluntary contribution accounts in defined benefit (DB) plans, where a member does not make an investment choice from among investment options that are made available. Specifically, the Guidance Note provides the following details on what plan administrators should take into account in relation to a default investment option, to ensure compliance with the *Pension Benefits Standards Act, 1985* (PBSA) standard of care and the so-called “prudent person rule” for the investment of plan assets:

- **Selection of a suitable default investment option.** When selecting a default option, plan administrators should take into consideration:
  - Age and/or risk profile of the pension plan membership
  - General suitability of the default investment option as a vehicle for retirement savings purposes. The default investment option should balance risk and return for the age and risk profile of the plan membership
  - Costs associated with the investment option, as they reduce investment returns and the size of accumulated account balances, impacting the amount of retirement income generated.

The Guidance Note provides that balanced funds<sup>[1]</sup> and funds comprised of a portfolio of investments that take into account member age (i.e. a target date fund<sup>[2]</sup>) are types of investment funds that plan administrators could consider for a default investment option.

- **Documenting the selection of the default investment option.** An administrator should establish, implement and adhere to policies and procedures that support its responsibilities with respect to investment options offered to members, including the default investment option. Administrators should further document the process and the rationale for selecting the default investment option.
- **Communicating the default investment option.** In describing the default investment option to plan members and its investment strategy, plan administrators should confirm that the default investment option information includes the following:
  - investment objective
  - type of investment and degree of risk
  - top ten holdings by market value
  - performance history
  - a statement that past performance is not necessarily an indication of future performance
  - the name and a description of the benchmark that best reflects the composition of the investment option
  - the associated costs, expressed as a percentage or a fixed amount, and
  - the target asset allocation.
- **Reviewing the default investment option.** Design, performance and continued suitability of the default investment option should be reviewed on an ongoing basis, particularly following key events impacting suitability such as: a change in the age and risk profile of the pension plan membership; consistent overperformance or underperformance of the underlying funds used in the investment strategy; changes to cost, of the fund manager or in the market or economy.

[1] A balanced fund is described as “an investment fund that offers a mixture of safety, income and capital appreciation,” holding a combination of equity and fixed income investments with a typical target allocation of between 40% and 60% of its assets to equities and the remainder to fixed income investments.

[2] A target date fund is described as a fund that invests in a mix of asset classes, where the asset allocation is typically tailored to the age or expected retirement date of the individual member, and in respect of which the allocation gradually adjusts over time to reduce risk (i.e. in accordance with a schedule or “glide path”).