INTERNATIONAL ORGANISATION OF PENSION SUPERVISORS

Toolkit for Risk-based pensions supervision

Case Study

Alberta, Canada

Risk-based Pensions Supervision provides a structured approach focusing on identifying potential risks faced by pension funds and assessing the financial and operational factors in place to mitigate those risks. This process then allows the supervisory authority to direct its resources towards the issues and institutions which pose the greatest threat.

The IOPS Toolkit for Risk-based Pensions Supervisors provides a 5-module framework for pensions supervisors looking to apply a system of risk-based supervision. A web-based format allows: a flexible approach to providing updates and additions; users to download each module separately as required; and a portal offering users more detailed resources, case studies and guidance. The website is accessible at www.iopsweb.org/rbstoolkit.

This document contains the **Case Study of Alberta, Canada.**

This work is published on the responsibility of the International Organisation of Pension Supervisors (IOPS). This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

IOPS freely authorises the use of this material for non-commercial purposes. Requests for commercial use or translation of this material should be submitted to daf.contact@oecd.org.

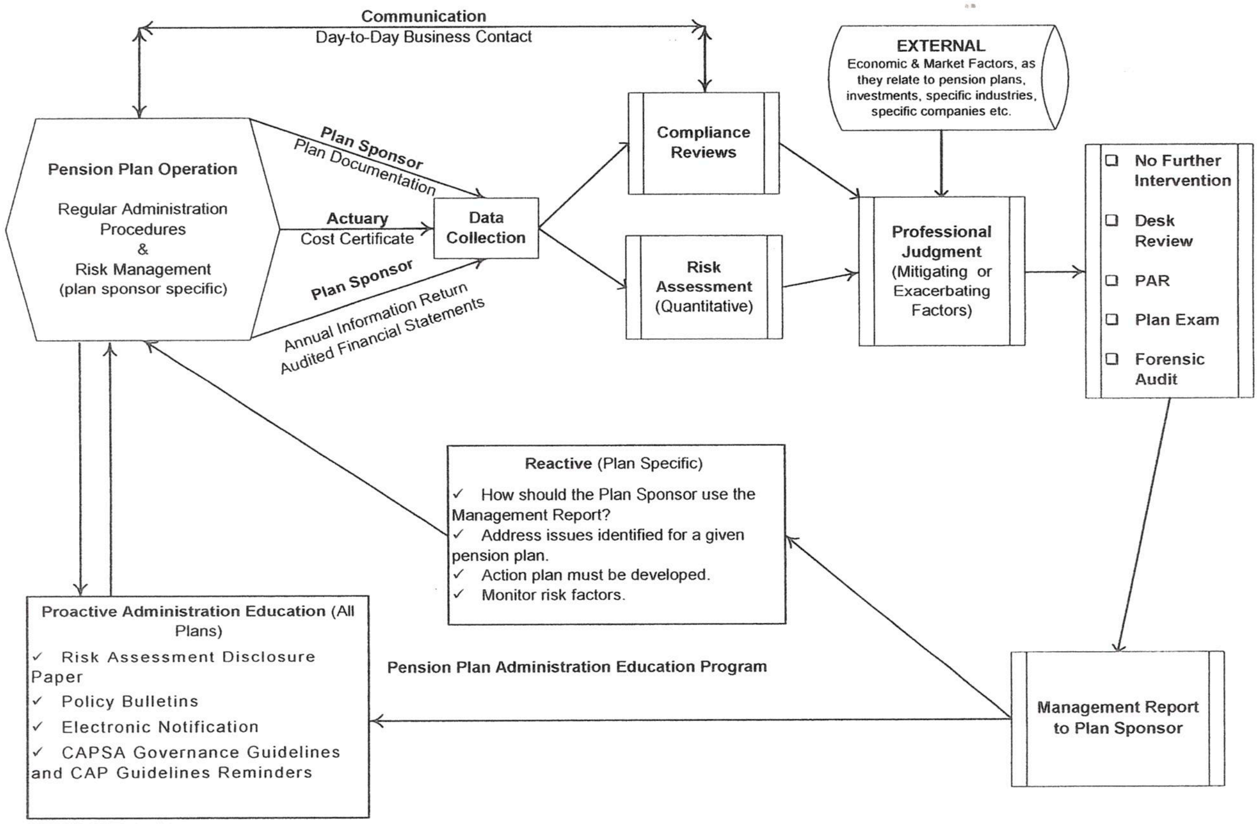
© IOPS 2018

Preliminaries

1. Background and General Overview

The Employment Pensions unit of Financial Sector Regulation and Policy (FSRP) within Alberta Finance and Enterprise is responsible for the administration of the *Employment Pension Plans Act* (the Act). As part of its efforts to ensure that pension plans registered in Alberta are compliant with the Act, Employment Pensions has established the Risk Management Strategy:

Employment Pensions' Risk Management Strategy



The Risk Management Strategy (RMS) includes four key components:

- Day-to-day compliance activity and enforcement activity,
- the Risk Assessment (RA) Program,
- the Pension Plan Intervention Program (PPIP), and
- ad hoc projects and one-time initiatives conducted in response to the prevailing pension's environment. (Examples include DC contribution review, DB Funding Relief analysis, or other issue specific topics)

The RA Program is a quantitative tool housed within the Pension Benefits Information System (PBIS). The RA Program consolidates data collected from sources such as annual information returns, cost certificates (where applicable), and individual compliance officer (CO) work-flow task-items. Using predetermined algorithms, risk points in respect of the quantitative data fields are assigned by the RA Program. In addition to the quantitative date points, the RA System permits a user-defined adjustment in respect of qualitative risk factors.

Based on the aggregate assigned risk points, the RA Program categorizes all pension plans registered in Alberta according to pre-determined risk categories based on the number of risk points assigned to each pension plan. The risk categories are: low, medium-low, medium, medium-high, and high. On an annual basis, the information and associated risk categories for all pension plans is "locked down", typically at some point in the 4th quarter (January to March) of each fiscal year. The results from a locked-down year are then used for the purposes of planning for the upcoming fiscal year's PPIP activity.

Each year, the proposed activity for the PPIP for the upcoming fiscal year is submitted to the Superintendent of Pensions for review and approval. Once approved, it is established as part of the RMS Annual Plan and the EP Operations Plan.

The PPIP is comprised of four types of review of a pension plan, with each type designed to address a specified level of risk as identified by the RA Program. The four types of review are:

A. Desk Review;
B. Plan Administrative Review (PAR);
C. Plan Examination; and
D. Plan Forensic Audit.

Desk Review
(Low, Medium-Low and Medium risk plans)

Plans identified by the RA Program as Low, Medium-Low or Medium risk may be selected on a randomized basis for a Desk Review. Under a Desk Review, the compliance officer conducting the review will undertake a thorough review of the pension plan's documents filed with EP's office, as well as any additional document that may be requested from the Plan Administrator and/or Service Provider(s).

While desk reviews are normally all encompassing, the scope of these reviews can be limited to specific documents or particular subject matter areas or issues related to the selected pension plan. Examples include investment review, member disclosure, contribution remittance etc...).

Desk Reviews can also be used as a mechanism for quality control in that a CO (other than the CO normally assigned to the plan) will review that selected plans. Secondly, they are useful in identifying previously undetected risk areas that may be characteristic of a particular type of pension plan. For example, incorrect application of the Act's plan eligibility rules, or of the plan's own eligibility rules, were identified in a subset of plans in a particular industry, leading to a review of other plans in the same subset.

Plan Administrative Review (PAR)
(Medium and Medium High risk plans)

When a plan has been identified as being Medium or Medium-High risk, but the issues of concern are administrative in nature, the plan may be subject to a Plan Administrative Review, or PAR. The primary focus in a PAR is to ensure that the pension plan administration complies with legislated minimum standards, the plan's own documents, or governance. A PAR differs from a Plan Examination as little emphasis is placed on aspects of the pension plan that do not relate directly to administration (example: actuarial review, investment compliance, or service provider review).

Plan Examination
(Medium-High or High Risk plans)

When a plan has been identified as being either "Medium-High" or "High" risk, the PPIP Team may conduct a Plan Examination. A Plan Examination consists of reviewing plan records and interviewing the Plan Administrator and the Services Provider(s), to ensure compliance in three areas: legislative compliance, compliance with plan documents, and governance.

Plan Forensic Audit
(High Risk plans with complex problems)

If during a review of a pension plan the EP Team finds evidence of criminal activity, or discovers issues that need to be addressed by someone with more expertise than the EP Team possesses, then a Plan Forensic Audit may be ordered. A forensic audit is beyond the scope of this manual and will not be addressed any further.

The PPIP can be summarized by the following table:

Risk Level	Possible Level of Intervention	Intervention by
Low	Day-to-Day Compliance Activity	CO
Randomly Selected Plans	Desk Review (of specific issue)	CO
Randomly Selected Plans	Desk Review for Peer Review	Different CO than the one assigned to the plan
Medium-low	Desk Review	CO
Medium	Desk Review	CO
Medium-high	PAR or Plan Examination	Onsite Team
High	Plan Examination	Onsite Team
High (Plan Examination complete and complex problems identified)	Plan Forensic Audit	Independent Auditor

The CO responsible for the pension plan is responsible for assessing whether the level of intervention that is used for a specified level of risk is appropriate given the circumstances.

If an enhanced level of intervention is advisable, the CO makes the recommendation to the Deputy Superintendent. The level of intervention that is used for any given plan will be determined by consultation between the CO responsible for the plan, the Pension Plan Intervention Team, the Deputy Superintendent of Pensions, and the Superintendent of Pensions.

2. Purpose of the Pension Plan Intervention Program

The mission statement of the Employment Pensions work unit is:

> *To provide a fair and balanced regulatory environment that supports the development and maintenance of strong and stable pension plans, and protects individuals' pension rights. We work to achieve this mission by working and living the Alberta Public Service values and the Financial Sector Regulation and Policy operating principles.*

The PPIP is a proactive part of the regulation process designed to review pension plans for compliance with the Act. The goal of the program is to correct the compliance issues and bring the plan back into the lowest risk category possible for the plan within the parameters established by the RA Program.

Disclosure Paper on the Risk Assessment Program

April 29, 2004

Introduction

The mandate of the *Employment Pension Plans Act* (EPPA) is to safeguard the entitlement of pension plan members to receive the benefits promised to them by employer sponsored pension plans, which is accomplished by:

1. Ensuring that plans are sufficiently funded to pay the benefits promised through:
    - setting minimum standards for the funding of pension plans,
    - requiring that pension funds be held separate and apart from the assets of the plan sponsor,
    - setting minimum standards for investment of pension funds, and
    - requiring that the funded status of defined benefit plans be reviewed regularly.

2. Ensuring the equitable treatment of members through:
    - standardizing the rules respecting eligibility for membership, and
    - standardizing the rules for benefit entitlement once an individual joins a plan.

3. Ensuring that plans are administered responsibly through:
    - setting disclosure requirements,
    - setting timelines for remittance of contributions to the pension fund,
    - setting timelines for record retention, and
    - defining who the administrator of a plan is and assigning specific responsibilities to that administrator.

The Alberta Superintendent of Financial Institutions (ASFI)[1] released a *Disclosure Paper on Risk Assessment Program* as a draft document for consultation with certain key stakeholders; 15 responses were received. As promised, these responses were carefully analyzed. Informing respondents of the results completed the consultation process. The thoughtful and valuable responses resulted in a number of improvements being made to the Risk Assessment Program. The Program has now been finalized, and is up and running.

This *Disclosure Paper on the Risk Assessment Program* is posted on the Alberta Finance website as a reference document for pension plan administrators and other interested parties.

Why is risk assessment needed?

The size of many pension plans has increased significantly over the last few decades with many plans now having multi-million, or even billion dollar funds. It is important for the Superintendent to be able to identify "at risk" pension plans and help keep them financially healthy so that members' benefits are protected even in the event of business failures.

Pension plans are coming under increased scrutiny from both plan members and the Courts. Pension funds

---

1. In his capacity as Superintendent of Pensions under the EPPA

are held in trust for the beneficial owners, who are the plan members, their pension partners, or other beneficiaries. As a result, plan sponsors and trustees have a fiduciary duty to plan members with respect to the management, administration and investment of pension funds. If something goes wrong, plan members will look not only to the plan sponsor for remedial action, but also to the government authority responsible for regulating the pension plan.

A key strategy for government to reduce the likelihood of negative outcomes is to develop a system that will swiftly and accurately identify plans that are at risk. The purpose of the Risk Assessment Program, developed by the Superintendent in consultation with PriceWaterhouseCoopers, is to serve as an indicator or early warning system to identify at-risk plans.

The computerized Risk Assessment Program carries out a reading of the "vital signs" of a pension plan as the first step in the overall risk-based monitoring system. The Superintendent may then decide that further examination is warranted, through a desk review and/or an on-site examination, with the "diagnosis" delivered in the form of a letter to the administrator or an Examination Report. The Superintendent will also prescribe "treatment" if the plan is in breach of the Act or is otherwise at risk of failing to meet its obligations.

The Risk Assessment Program's purpose is not to give "grades" to pension plans, nor to compare them to one another. Rather, it will assess plans for the purpose of determining what level of scrutiny they require, and what aspects of plan governance or administration may need attention.

The Risk Assessment Program will undergo continuous review and refinement to ensure that it is a useful, practical tool. Stakeholders will be informed as modifications are made.

Focusing Resources

The Superintendent's Office has five (5) pension compliance officers and regulates approximately 1200 registered pension plans. This means that each officer is responsible for monitoring 240 pension plans. It is important for both ASFI and plan sponsors that the limited resources of the Superintendent's Office be utilized in the most effective manner.

The Risk Assessment Program will enable the Superintendent's Office to focus time and resources on pension plans that most need attention, at the same time reducing routine manual compliance activities for plans that are rated low risk. Ideally, the Risk Assessment Program will identify at-risk plans before they develop serious difficulties, giving the Superintendent's Office time to work with the plan sponsors to avoid a crisis. This will save time and effort on the part of all concerned.

The Risk Assessment Program does not add to the administrative responsibilities of plan administrators nor place an additional burden on the Superintendent's staff. The Program applies automated analyses to information already stored in the database. This information comes mainly from compliance filings (Annual Information Returns, plan documents, and cost certificates with accompanying actuarial valuations). Other information is generated by the Superintendent's Office or sent by other parties to the Superintendent (for example, numbers of late filings, directions for compliance, member complaints).

Freedom of Information Issues

While many respondents expressed an interest in seeing the output of the Risk Assessment Program as it applies to their own pension plans, they were concerned about whether other parties would have access to this information under the *Freedom of Information and Protection of Privacy (FOIPP) Act.*

The Superintendent intends to handle this matter as follows. Upon request, a plan administrator will be given the results of the risk assessment of their own plan, without having to make a request under the FOIPP Act. General comparative information (that is, whether their plan rated high, medium or low risk compared to other plans in the same category) will also be given to enable the administrator to put the information into a useful context. Anyone other than the plan administrator will have to make an access to information request.

If the Superintendent receives such an access request, it will be reviewed to determine whether any exceptions apply that would require the Superintendent to withhold the records. Among potential exemptions are records that contain evaluative information, or business information about a third party, the release of which could harm that third party. Exemptions might apply also to the basic financial information provided by plan administrators. All FOIPP requests would have to be assessed individually.

The existence of freedom of information legislation is a reality that governments and their clients have to recognize. It serves to shed light on the regulatory process and assure Albertans that the regulatory system is working to protect their interests. It should not cause undue anxiety for either the regulator or the pension plans being regulated, nor should it affect processes that are designed to enhance regulatory effectiveness.

What is meant by risk?

What does the Superintendent consider to be "risk" in a pension plan – what are the undesirable outcomes that this early warning system is designed to forestall? The Superintendent views the following as three important categories of undesirable outcomes, in order of importance:

1. A plan may be experiencing serious funding problems. Funding deficiencies may be the result of any or all of the following: market conditions, incorrect actuarial advice/forecasting, poor and/or improper investment strategies/decisions, and economic conditions related to a specific industry.

2. A plan may have governance problems. Those who are responsible for the administration and operation of a pension plan may not acknowledge or understand their role in the management of the pension plan in the interests of plan members. These people might not be held accountable for their actions as a result of weakness in the governance structure.

3. There may be management and administrative problems that can lead to errors in benefit calculation, failure to provide members with entitlements in accordance with the *Employment Pension Plans Act*'s minimum standards, failure to meet minimum disclosure standards, and failure to provide required filings to enable the Superintendent to assess the plan's compliance and general financial status.

Some respondents to the consultation commented that elements of the Risk Assessment Program measure plan design choices rather than failure to manage risk or administer effectively. However, plan design may be an indicator of increased probability that one or more undesirable outcomes could happen. For example, a very complex benefit formula could lead to failure to calculate benefits correctly, or to provide accurate and timely disclosure. This does not mean that all complex plans are "at risk." Rather, it depends on whether the plan's administrative systems and processes are adequate. This can be assessed by the professional judgment of the compliance officer or, if necessary, through a more in-depth review or examination, which would form the next stage in the risk-based monitoring system.

It is important to be clear also that for purposes of monitoring risk and preventing unfavourable outcomes, the following are not considered to be within the purview of the regulator:

1. That an employer could terminate a pension plan
2. That markets may perform poorly and, consequently, defined contribution accounts will decline in value.
3. That an employee may not have an adequate pension at retirement.

While the Superintendent recognizes that these are unfavourable outcomes for plan members, they do not fall under the EPPA's regulatory mandate.

Pension plans assessed under the Risk Assessment Program are classified according to five categories of risk (Low, Medium-Low, Medium, Medium-High, and High). The classification of risk applies not only to the pension plan as a whole, but also to each individual risk characteristic. The risk level assigned to a plan determines the subsequent actions taken by the Superintendent.

The following two (2) tables explain the risk characteristics analyzed by the computer-based risk-assessment system.

Defined Contribution (DC) Risk Characteristics Table	
Type of Plan	Certain classifications of pension plans warrant a higher risk rating due to the complexity of the organization of the plan (one versus multiple employers) and/or due to the funding arrangements of the plan (negotiated contributions or not).
Complexity of Contribution Formula	A complex contribution formula in a DC pension plan presents an increased risk to the general administration of the plan either because it can result in administrative errors or because it can fluctuate due to uncontrollable circumstances - for example, formulas that have different contribution rates for different years of service, or formulas that are offset by CPP or CPP contributions. Additionally, complex formulas may be harder for plan members to understand, leading to potential communication problems and member complaints, and reducing the likelihood that members themselves could detect errors.
Complexity of Plan Design	Similar to the above, the more complex a plan is (such as multiple membership classes), the more the potential for administrative risk.
Type of Fund Holder	A company whose business is being a professional fund holder, such as an insurance company or a trust company, will likely exhibit less risk than a plan trusteed by a board or group of individuals, due to the professional fund holder's access to human and systems resources.
Multi-Jurisdictional Plans	The administration of plans that are subject to pension legislation of two or more jurisdictions presents an increased risk to the general administration of the plan because the increased complexity could result in administrative errors.
Defined Benefit Past Service	Some DC plans still have historical components that are defined benefit (DB) in nature. As a result these types of plans will have some additional risk.
Late Filings of Annual Information Returns (AIRs)	AIRs are the basic information filing captured on a yearly basis for all pension plans. Consistently late filing of these documents and/or errors in completing these forms may indicate an administrative and/or governance problem.
Late Remittance of Contributions	Timely remittance of contributions to the fund holder of the pension plan is crucial to the operation of a plan. Late remittance of contributions to the fund holder may indicate an administrative/governance problem and can be a warning signal about the financial health of the plan sponsor.
Superintendent Directives Issued	Pursuant to section 8 of the *Employment Pension Plans Act*, the Superintendent has the power to issue a directive for compliance to a plan administrator. Such directives are only issued where a plan sponsor has refused or failed to comply with the Act. A plan on which a directive has been issued deserves increased scrutiny.

Significant Plan/Employer Events	In today's business world, corporate mergers, splits and acquisitions occur frequently. This can affect the assumption of responsibility for plan liability and the operation of the pension plan. Where a merger, spin-off, partial termination, or conversion of benefits of a plan occurs, there is an increased risk in respect of the administration of the plan and the maintenance of plan records.
Investment Direction	A significant risk characteristic for a DC plan is the investment decision role of the sponsor (usually the employer, sometimes a union) and members. A sponsor is more likely to have access to and use the advice of professional investment advisors. Plans with member-directed investments have greater disclosure obligations, and the concerns of member-directed plans are to ensure that members are provided with useful tools and appropriate selections of investments to aid them in making informed investment choices.
Membership Turnover	Consistency in the membership numbers is a measure of stability of the plan and sponsor. Rapid and/or significant change in the membership of a plan can create an increased administrative risk to a pension plan. Significant decreases in plan membership may be an indicator that the financial health of the plan sponsor is deteriorating.
Member Complaints	Member complaints indicate a lack of understanding of the plan or confidence in the pension plan and may be indicative of more serious administrative problems.

Defined Benefit (DB) Risk Characteristics Table	
Type of Plan	Certain classifications of pension plans necessarily warrant a higher risk rating due to the complexity of the organization of the plan (one versus multiple employers) and/or due to the funding arrangements of the plan (negotiated contributions or not).
Complexity of Benefit Formula	A complex benefit formula in a DB pension plan presents an increased risk to the general administration of the plan either because it can result in administrative errors or because it can fluctuate due to uncontrollable circumstances - for example, formulas that are offset by CPP; formulas that are a combination of DC and DB; accrued past service benefits differ from the current service benefits. Additionally, complex formulas may be harder for plan members to understand, leading to potential communication problems and member complaints, and reducing the likelihood that members themselves could detect errors. The same would apply to the employee contribution formula.
Complexity of Plan Design	Similar to the above, the more complex a plan is (such as multiple membership classes, flexible or special benefits), the more the potential for administrative risk.
Ancillary Benefits	Similarly, ancillary benefits may increase the administrative risk of the plan, as these benefits require an additional calculation to determine a member's benefit entitlement. The risk may increase where a pension plan offers more than one type of ancillary benefit. Also, ancillary benefits can expose the plan to a greater risk of having solvency deficiencies, e.g. unreduced early retirement.
Type of Fund Holder	A company whose business is being a professional fund holder, such as an insurance company or a trust company, will likely exhibit less risk than a plan trusteed by a board or group of individuals, due to the professional fund holder's access to human and systems resources.
Multi-Jurisdictional Plans	The administration of plans that are subject to pension legislation of two or more jurisdictions presents an increased risk to the general administration of the plan because the increased complexity could result in administrative errors.
Late and/or Inaccurate Filings of Annual Information Returns (AIRs)	AIRs are the basic information filing captured on a yearly basis for all pension plans. Consistently late filing of these documents and/or errors in completing these forms may indicate an administrative and/or governance problem.

Late and/or Inaccurate Filings of Actuarial Valuations and Cost Certificates (CCs)	Actuarial valuations and cost certificates are critical for determining the funded levels and contribution requirements of a DB pension plan. Consistently late filing of these documents may indicate an administrative and/or governance risk.
Late Remittance of Contributions	Timely remittance of contributions to the fund holder of the pension plan is crucial to the operation of a plan. Late remittance of contributions to the fund holder may indicate an administrative/governance problem and can be a warning signal about the financial health of the plan sponsor.
Superintendent Directives Issued	Pursuant to section 8 of the *Employment Pension Plans Act*, the Superintendent has the power to issue a directive for compliance to a plan administrator. Such directives are only issued where a plan sponsor has refused or failed to comply with the Act. A plan on which a directive has been issued warrants increased scrutiny.
Significant Plan/Employer Events	In today's business world, corporate mergers, splits and acquisitions occur frequently. This can affect the assumption of responsibility for plan liability and the operation of the pension plan. Where a merger, spin-off, partial termination, or conversion of benefits of a plan occurs, there is an increased risk in respect of the administration of the plan and the maintenance of plan records.
Membership Turnover	Consistency in membership numbers is a measure of stability of the plan and the sponsor. Rapid and/or significant change in the membership of a plan can create an increased administrative risk to the plan. Significant decreases in plan membership may be an indicator that the financial health of the plan sponsor is deteriorating.
Member Complaints	Member complaints indicate a lack of understanding of the plan or confidence in the pension plan and may be indicative of more serious administrative problems.
Maturity of the Plan	Mature pension plans face an increased funding risk because a significant amount of the liability is attributable to members who no longer provide service to the plan sponsor and in respect of whom current service contributions are no longer being made (i.e. deferred and retired members). While future service benefit accrual can be reduced for active members of the plan, the same is not true for accrued benefits, except in extreme circumstances for negotiated contribution plans. In situations where plan experience is adverse, the "promise to pay" requirement of the plan sponsor cannot be altered. This may create a significant funding risk to the plan. Related to this, mature pension plans may require close scrutiny of their investment strategy to determine whether it meets the plan's need for income and liquidity.

Utilized Value of Assets used to Calculate Going Concern Liabilities	The utilized value of plan assets can potentially overstate the going concern funded status of the plan, or may not be reflective of the market value of plan assets.
Unfunded Liabilities	The persistent creation of unfunded liabilities in a pension plan may be indicative of insufficient conservatism of actuarial assumptions and/or benefit improvements that cannot be adequately funded. Further, an unfunded liability amounting to 50% of the total going concern liability is viewed as a significant funding risk.
Funded Ratio	The degree to which a plan is under-funded on a going concern basis indicates the level of funding risk to the plan. The lower the funded ratio, the greater the risk to the plan.
Going-Concern Interest Rate Assumptions	An aggressive interest rate assumption can significantly reduce the actuarial normal cost of funding current service benefits. What is considered an aggressive assumption depends on the economic conditions at the relevant time. SMEPPS, due to the limited liability of participating employers, are expected to employ a more conservative interest rate assumption.
Interest/Salary Assumption Differential	The going-concern interest rate assumption is typically a nominal rate of return while the salary increase assumption is a summation of inflation, merit and promotion, and productivity assumptions. A significant differential between the going-concern interest rate assumption and the salary increase assumption may be due to an over-estimation of the nominal rate of return on assets, an under-estimation of the increasing salaries of plan members, or a combination of both. As a result, the normal actuarial cost of the plan benefits may be understated and/or an aggressive differential between the two values may overvalue the expected real rate of return on plan assets.

Solvency Deficiency	A fundamental measure of a plan's financial health is that it has sufficient assets to cover liabilities in the event of plan termination. While the EPPA requires the amortization of solvency deficiencies upon plan termination (other than for Specified Multi-Employer Pension Plans), that requirement will not likely be met where a plan termination occurs due to the bankruptcy of the sponsoring employer. In that situation, benefits must be reduced, to the detriment of the plan members.
Solvency Ratio	The lower the solvency ratio of the plan, the greater the risk that the plan will not be able to pay benefits in full. Further, the administrative complexity of the plan is increased where the solvency ratio is less than 0.95 because this affects the payment in full of benefits upon a transfer out of the plan fund.
Collectively Bargained Plans	Because the funding of a negotiated contribution rate plan depends entirely on the rate set out in a collective bargaining agreement, there are risks associated with the actuarial assumptions and projections of such plans. Specifically, risk is increased when the negotiated contribution rate is not sufficient to cover the total of the normal actuarial cost and any special payments. Also, where no contingency reserve has been established to protect against potential future adverse experience, or where the average number of hours for which contributions have been received has dropped significantly from previous valuations, the plan is considered to have an elevated risk.

Professional Judgment

Professional judgment is an ongoing part of the risk assessment process. The compliance officer assigned to a pension plan is in the best position to assess that plan. Compliance officers combine their review of the quantitative risk assessment results and the compliance documents with their working knowledge of the plan.

Compliance officers are familiar not only with the plan documents and compliance filings, but also with past and expected future developments relating to the plan. In this regard, they are expected to conduct environmental scans for factors that may affect their pension plans – for example, reports of impending corporate mergers.

Compliance officers will conduct a more in-depth review if the initial computer-based risk assessment indicates potential risks, while being aware of extenuating circumstances that are not reflected in the preliminary risk measurement process. To this end, they also draw on the relationships they have established with plan administrators and their service providers.

Thus, compliance officers are able to assess the risk level of a plan within a more complete context, taking into account mitigating or exacerbating circumstances and subtleties not captured by the analytical program. For example:

- Late filings five years ago represent less risk than recent late filings,
- When reviewing a newly filed valuation and cost certificate, certain indicators may cause the compliance officer to request an explanation from the actuary about the use of certain actuarial or economic assumptions such as:
    - Valuation interest rate over 7.0% (6.0% for Specified Multi-Employer Plans);
    - Mortality tables that are no longer in general use;
    - The differential between the interest and salary increase assumptions is greater than 2.5%.

  Once a satisfactory explanation is provided, the compliance officer can use his/her professional judgment to mitigate the risk rating that the above assumption would have produced in the computer-based risk assessment.

A compliance officer's professional judgment also serves as an effective check for the data collection aspect of the Risk Assessment Program, allowing for adjustments to reduce data errors. Compliance officers assist each other in performing consistent, objective and knowledgeable evaluations. Finally, the Deputy Superintendent and Superintendent provide oversight and an ultimate source of professional judgment.

Compliance with the Act and Other Issues

As the above risk characteristic tables indicate, one of the functions of the Risk Assessment Program is to detect non-compliance with the EPPA. However, this is not a purpose in and of itself. Although the Superintendent's mandate is to enforce compliance with the Act, the Act's purpose is to decrease the possibility that a plan will fail to deliver, fully and on time, the benefits promised, or will fail to give members the information they need. The focus therefore is on outcomes. First and foremost, the Superintendent looks at failure to comply with the Act as an indication that a plan may fail to deliver on essential promises.

In addition, while the EPPA does not directly regulate "prudence," this remains a fundamental characteristic that greatly affects outcomes in pension plans. The Risk Assessment Program does not measure prudence. It is only through a more thorough examination of a plan's governance and operation that any conclusions can be reached in this regard. If a plan examination results in concerns about prudence, the Superintendent will inform the plan administrator of these concerns, again because these are indications of the potential for a plan to fail to deliver on the pension promises.

Goals of the Risk Assessment Program

1. Improve the ability of the Alberta Superintendent of Financial Institutions (ASFI) to monitor and ensure compliance with the EPPA and Regulation.

2. Adopt an early proactive role with at-risk plans by accurately identifying those plans exhibiting increased risk levels.

3. Improve ASFI's ability to ensure a plan's compliance with its own documents, including the plan text and funding/trust documents.

4. Improve ASFI's ability to ensure plans are funded in a manner that will allow the promised benefits to members to be paid in full.

5. Improve ASFI's ability to ensure that pension funds are invested in accordance with the Act and Regulation.

6. Improve the efficiency and effectiveness of the Superintendent's regulatory activities given the limited time, human resources, and financial resources.

7. Assist in measuring the effectiveness of the legislation by being cognizant of the issues facing plan sponsors in respect of compliance with the legislation.

8. Ensure that plan members are well informed and have a high level of confidence in the security of their plan.

9. Recognize that defined contribution pension plans have different risk characteristics than defined benefit pension plans.

Means of Achieving Goals

1. Develop and refine a risk assessment system that will assess each plan's risk level based on set criteria.

2. Refine the intervention program to deal with identified at-risk plans. Actions may include:
   a) Correspondence to correct a specific issue (desk review),
   b) Intervention and review (limited examination and/or meetings),
   c) Full examination with remedial action.

3. Issue directives for compliance where appropriate.

4. Follow-up with identified at-risk plans to ensure that appropriate actions are being taken until risk levels are lowered to acceptable standards.

Summary

The chief mandate of the province's pension regulator, the Superintendent of Financial Institutions, is to enforce the *Employment Pension Plans Act*. More generally, the Superintendent has responsibility for the outcomes implied by that Act: healthy pension plans for Albertans. With limited resources, the Superintendent has to be as efficient and effective as possible. The Risk Assessment Program will help the Superintendent's Office to focus on helping at-risk plans become and remain financially healthy. Also, by communicating risk assessment criteria as well as review findings to plan sponsors, the Superintendent will increase knowledge and awareness of the compliance requirements of the Act, as well as good governance and sound administrative practices. The intended long-term effect is to lower the risk of plan failure.

IOPS Toolkit for Risk-based Pensions Supervisors
www.iopsweb.org/rbstoolkit