

# Strengthening the Governance of Pension Funds

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**1. Governance Structure**

**2. Governance Mechanisms**

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# 1. Governance Structure

# Responsibilities

- Clear identification and separation of operational and oversight responsibilities
- Responsibilities should be stated in the statutes, by-laws, or trust instruments. The legal form of the pension entity, the internal governance structure and main objectives, should also be outlined in these documents
- Role of the plan sponsor and the rights of the plan/fund members and beneficiaries should be documented

## Responsibilities (*continued*)

- Additionally, pension fund governance should be 'risk-based', so the division of responsibilities should reflect the extent of the risks posed by the fund
- For example, if the funds adopt a sophisticated investment strategy, an investment sub-committee may be suitable



# Governing Body

- Pension funds should have a governing body with the authority to administer the fund and who is responsible for ensuring the adherence to the terms of the arrangement.
- Responsibilities of the governing body should be in line with the principal objective of a pension fund, which is to serve as the source of funds for retirement benefits

## Governing Body *(continued)*

- The governing body sole focus should be on strategic decisions and oversight functions. While the governing body retains responsibility for the pension fund, operational tasks could be delegated to staff, sub-committees or external service providers
- The governing body should retain responsibility for monitoring service providers via service level agreements

# Accountability

- The governing body should be accountable to the pension plan members and beneficiaries, its supervisory board and the competent authorities. It should be liable for its actions which are in breach of its duties
- Accountability also requires regular meetings of the governing body, division of decision-making power, disclosure of decisions made in meetings, regular reporting of important and significant information
- The appointment of independent professionals to the governing body is a valuable way to promote good governance



# Suitability

- There should be subject minimum suitability standards that each member should possess to ensure a high level of integrity, competence, experience and professionalism in the governance of the pension fund.
- Each member should have skill sets that enables the board to successfully execute its obligations. A template of the skill sets needed to identify gaps may be established.
- The governing body should have the skills and knowledge to oversee the functions performed by a pension fund and monitor the functions delegated to third parties

# Delegation and expert advice

- The governing body may delegate functions to sub-committees and internal staff of the pension entity or external service providers.
- If the governing body lacks sufficient expertise to make fully informed decisions, it could be required to seek expert legal advice or appoint professionals to carry out certain functions

# Auditor

- An independent auditor should be appointed by the appropriate authority to carry out a periodic audit which meets the needs of the arrangement.
- The auditor is responsible for reviewing the financial accounts for the pension plan / fund periodically. The complexity and size of the pension plan / fund will dictate the scope and frequency of the audit.
- The independence of the auditor from the pension entity, the governing body and the plan sponsor is important to ensure the impartiality of the audit.

# Actuary

- An actuary should be appointed by the appropriate body or authority for all defined benefit plans financed via pensions funds.
- The actuary does not have to be an employed member of the staff of the pension entity or the financial institution managing the fund
- The role of the actuary should include the evaluation of the fund's present and future pension liabilities with a view to determining the financial solvency of the pension plan

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# Governance mechanisms



# Internal Controls

- The scope and complexity of internal control measures should be 'risk-based' and will vary according to the type and size of the pension plan and the type and extent of risks faced.
- Internal controls should be in place to ensure that all persons and entities with operational and oversight responsibilities act in accordance with the objectives set out in the pension entity's by-laws, statutes, etc, and that they comply with the law. These controls should encompass all organizational and administrative procedures.
- A code of conduct and a conflicts of interest policy should also be developed for the staff of the pension entity and for any party with operational responsibilities.

# Reporting, Disclosure and Transparency

- To ensure the effective and timely transmission of relevant and accurate information, reporting channels between all persons and the entities involved in the governance of the pension fund should be established
- The governing body should disclose relevant information to all parties involved in a clear, accurate and timely manner

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**Questions for employers to consider  
For Plan Administration and Governance**

- Are there procedures in place to ensure that the employee's service is being properly and timely credited
- Are there procedures to ensure that employees are enrolled and participate in the plan on a timely basis
- Are there procedures to ensure that employees are credited with the correct vesting percentage each year

- Are there procedures in place to ensure that only the appropriate items of compensation are reported to the plan administrator
- Does the plan have an established beneficiary designation procedure
- Is each participant given a summary plan description
- Are records retained which indicate that each participant received a summary plan description



- Have the plan fiduciaries adopted a Statement of Investment Policies to be followed by the employer and Investment Manager with respect to the assets for the Plan and Trust
- Does the named fiduciary submit a report to the Board regarding plan administrators and compliance
- Does the plan have a policy for the selection and monitoring of the Plan's service providers (i.e. consultant, auditor, actuary, third party administrator, etc)

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**Thank you for your attention!**