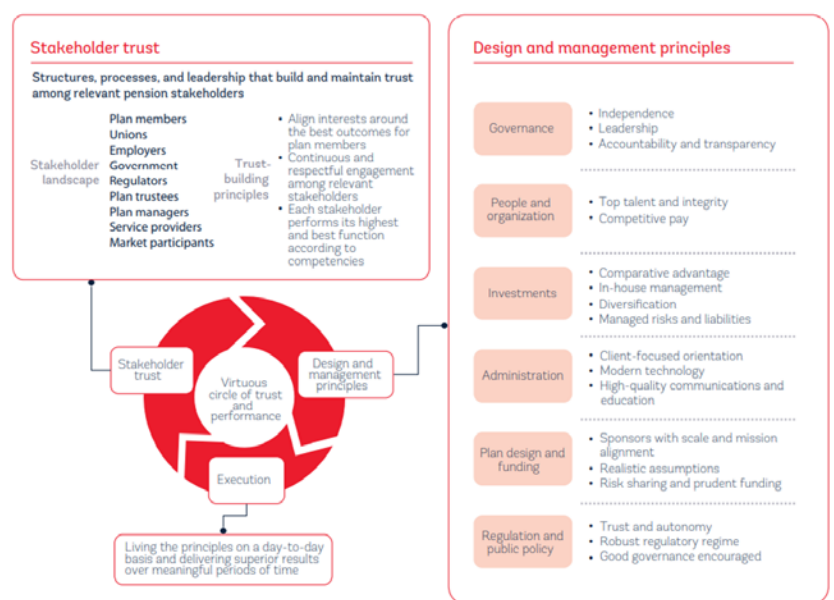# Canada is a Pension Pioneer

INTRODUCTION

Canadian pension funds have established a worldwide reputation for sophistication in their plan governance, investment approaches, and member service. Providing an adequate, financially secure lifetime income to Canadian citizens after retirement is a high national priority, with approximately 40% of Canadian workers participating in defined benefit pension plans.[1] Canadian pension funds remain the most solvent in North America, with only five percent having solvency ratios (assets to projected liabilities) less than 80% at year-end 2022.[2] Strong governance and financial strength have also enabled the necessary, ongoing investments in technology and quality personnel that enable world-class member and employer service.

A CULTURE OF COLLABORATION, TRUST, AND PERFORMANCE

Since the 1980s, the largest Canadian pension funds have evolved to provide strong, independent governance that aligns all stakeholders – plan members, employers, unions, plan trustees, plan managers and service personnel, and government regulators – on the single goal of providing retirement security to plan members. Metrics-driven accountability and transparency from executive leadership to front-line employees drive consistent improvements and high service levels.[3]

The largest pension funds are managed with a business mindset that prioritizes efficiency and effectiveness. For example, they will often outsource functions where internal employees cannot provide the best value and then attract and retain high-performing employees with competitive rates of compensation.

Figure 5.1: Building a world-class pension organization (Lessons from Canada)

Source: World Bank Group

REGULATIONS PLACE A HIGH PRIORITY ON LIFETIME INCOME

The Canadian government works with Canadian pension funds and regulators in the ten provinces and three territories to protect the best interests of plan members. Unlike in the U.S., where a member's defined benefit shadow assets are not portable to other retirement accounts, Canadian pension regulations often allow portability of the present value of a member's earned defined benefit ("commuted value") to other locked-in, lifetime income investment vehicles. These commuted value rules are complex and require province-specific calculation capabilities that pension administration software must support.

Hardship (medical or disability-related) withdrawals prior to age 55 from Canadian defined benefit pension funds are subject to a range of complex rules that pension administration software also must support. Unlike in the U.S., all Canadian active and retired employees must, by law, receive an annual statement that illustrates the current and forecasted earned pension.[4]

COMBINE MODERN TECHNOLOGY WITH HIGH-TOUCH MEMBER AND EMPLOYER SERVICE

In Vitech's experience, we've observed that Canadian pension funds take a holistic approach to technology modernization, one that supports a long-term vision and targets an operating model geared toward meeting the needs of members and employers. This operating model helps generate the criteria necessary for measuring success and effectively prioritizing resources in all phases of the program.

Straight-through-processing, efficiency, and information security advantages of a modern benefits administration platform are important but so is the quality of interactions with members and employers. Canadian pension funds commonly employ large teams of member and employer education staff, who conduct in-person meetings with members and employers to educate them about the features of their pension plan, how to make important decisions (like when to retire), and the overall value of the plan. Service to employers is as high of a priority for Canadian pension funds as member service. Pension administration software must provide the necessary reporting, accounting, and transactional capabilities for a compelling, multi-employer service experience.

Canadian pension funds regularly survey their members and employers to understand their level of satisfaction. These satisfaction levels are compared against global peers, used as important business metrics to improve operations, and influence the compensation of the pension professionals who work for these plans.

CONCLUSION

The largest Canadian pension funds operate like top-tier corporations, with a clear mission of retirement security for pension plan members that all internal and external constituents are aligned against. Independent governance, transparent operations, merit-based hiring, active measurement of key activities against global peers, and continuous improvements have resulted in high levels of retirement income security to members and service to members and employers. Technology investments fit within a long-term vision and target operating model, where modern pension administration software is needed to support automated and high-touch operations and the plan rules and calculations unique to the Canadian market.

ABOUT VITECH

Vitech is a global provider of cloud-native benefits and investment administration software. We help our Insurance, Retirement, and Investment clients expand their offerings and capabilities, streamline their operations, gain analytical insights, and transform their engagement models. Vitech employs over 1,400 professionals, serving the world's most successful insurance, retirement, and investment organizations. An innovator and visionary, Vitech's market leadership has been recognized by industry experts, such as Gartner, Celent, Aite-Novarica, and ISG. For more information, please visit vitechinc.com.

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