Know your client and group annuity plans

Information to gather

This information will help you know your client when conducting a financial needs analysis (FNA) for a group annuity plan:

- **Portrait of the company and its environment**. Its profile (family company, international company, number of years of service, business operations, production process, technology used, warranties provided, accreditations), geographic location of its operations, its competitive position in the industry, etc.
- **Company formation.** Shareholder agreements, creation of trusts or joint-stock companies, directors, etc.
- **Company culture.** What inspires and guides the company, shared beliefs, like innovation, tradition, concern for fairness, employee well-being, etc.
- **Future.** Business and human resources strategies, short and long term, growth forecasts or plans to downsize, etc.
- **Employees.** How many, their ages, their level of satisfaction, salaries, employee categories and statuses (temporary, part time, full time), obligations under collective bargaining agreements, etc. This data can impact the plan's financial structure and, along with financial data, is useful when looking for solutions that will benefit everyone when it comes to their taxes.
- **Finances.** The company's financial situation, income and expenses, balance sheet, especially its tax liabilities, its cash assets, its stability, the resources available to achieve its human resources strategy, etc. This data can impact the budget available for the plan, the financial and administrative arrangements and the attractiveness for providers.
- **Plan manager.** Their responsiveness, their ability to make decisions about the plan, the degree of collaboration they are willing to offer, etc.

This data can impact the sales process and the implementation of the plan.

Setting up a plan

Here are some sample questions that can help you understand your client's situation and concerns, and provide them with an appropriate recommendation.

General

- Does your company already have a group annuity plan?
- How many employees does your company have?
- How many are full time, and how many are part time?
- Do you have operations or employees outside of Quebec?
- Do you have employees whose salary does not allow them to save for retirement?
- Do you want to stand out to attract staff or retain employees?
- Should plan management fees be considered when evaluating proposals from providers?

On plan funding

- Do you wish to contribute to the plan?
- Would an additional tax on your payroll prevent you from contributing?
- Is a profit-based contribution more appropriate for your company?
- Do you want to have flexibility to adjust your contribution based on your employees' productivity or performance?
- What degree of responsibility is the company willing to take in funding the plan?
- Are your employees willing to contribute to benefit from a group annuity plan?
- Are you willing to require an employee contribution?

On the plan itself

- Are you able to form a pension committee to administer the plan?
- Do you want to select the investment options offered by the plan yourself?
- Do you want to allow employees to make withdrawals before retirement?
- Do you want to give employees training about how the plan works?

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Renewing or changing a plan

For an existing plan, it would be helpful to check whether the client's objectives, priorities or capacities have changed since the plan was last renewed or implemented. For example:

- Is the client looking to save money, for example by reassessing existing contributions or renegotiating fees? If this is the case, try to understand the motivation behind it. Financial troubles, costly development projects, anticipated downturn in business, a new collective bargaining agreement? Check that the plan still meets the client's needs.
- Does the client need support in administering the plan, because the person in charge was replaced by an inexperienced employee, because the company is opening a new plant, because it just bought out a competitor or due to new regulation?
- Does the client need support setting up or using new technologies to manage its plan?
- Are employees satisfied with the plan or service offered by the provider?

Plan management

Your obligations continue in the management phase. During this phase, you should periodically review the current plan and, if necessary, make any adjustments needed if the situations of the client or employees change, to ensure that the plan continues to be right for them.

If you notice irregularities in plan administration, you should report them to the company or the sponsor. Even if the irregularities are the result of the administrator's lack of knowledge, forgetfulness or negligence, the company or the sponsor should be advised of it so that they can take the necessary steps, since there could be major consequences.

About fiduciary responsibility

The features of the plan can have a major impact on the company, particularly on its responsibility, income and cash flow. Plan administrators, boards of directors or pension committees that are responsible for administering it should understand the legal requirements and governance of group annuity plans, because it is their responsibility to oversee the plan implemented. They should know the challenges and monitor its progress to make sure it continues to meet objectives and demonstrate sound, effective governance.

For certain plans, the employer is liable as the fiduciary through its pension committee, specifically, which acts as administrator. Examples of this are supplemental pension plans (SPP), defined contribution plans or defined benefit plans.

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This means the choice of manager should be guided by good governance, the investments chosen should be diverse, able to be tailored to employee profiles (for example, lower risk investments closer to retirement) and the fees should be appropriate to the client's situation.

There are a variety of ways to reduce fiduciary risk, including:

- Encouraging employees to contribute to the plan, which helps keep fees down, since they fluctuate with the number of participants, annual contributions and assets accumulated per participant.
- Limiting the number of investments while ensuring a diverse range based on pre-established criteria.
- Taking the time to explain the various investment options to employees.
- Inviting the employees to consult with an advisor of their choice to guide them in choosing their investments.

Liability insurance may also be taken out to protect the administrator from the financial consequences of actions, errors or omissions related to its obligations.

Feel free to consult with a professional specializing in good governance of group annuity plans, such as a tax specialist, an actuary or other professional for support in implementing a more complex plan.

Recommendation

After analyzing the client's situation and needs, and providers' offerings on the market, you will be able to recommend a type of plan, for example:

- Voluntary retirement savings plan (VRSP).
- Group RRSP.
- Deferred profit-sharing plan (DPSP).
- Simplified pension plan (SIPP).
- Supplemental pension plan (SPP).
- Registered pension plans (RPP).
- Group TFSA.

Your recommendation will also impact other factors, including:

- Choice of provider.
- Contribution and withdrawal rules.
- Choice of investments, if applicable.

Standing out

A good way to stand out and add to your value is to expand your service range, for example, offering your clients:

- Fee vs. fund return analysis.
- Investment fund offering analysis.
- Plan rule suitability analysis.
- Analysis of the plan's competitive position.
- Call for tenders from different providers.
- Fee negotiations with the provider.
- Information sessions held for employees.
- Support in administering the plan.

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