Central Bank of Trinidad & Tobago

Guideline on Communication with Pension Plan Members

The purpose of this Guideline is to encourage transparency in the operations of pension plans.

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GUIDELINE ON PENSION FUND COMMUNICATION WITH MEMBERS

1. INTRODUCTION

1.1 The Central Bank of Trinidad and Tobago ("Central Bank"/"Bank") regulates all occupational pension plans in Trinidad and Tobago established in accordance with the Insurance Act, Chap 84:01 ("the Insurance Act").[1] No pension fund plan may be operated unless it is established under trust and registered with the Central Bank in accordance with section 174 (1) of the Insurance Act[2].

1.2 The Insurance Act provides that every person having any rights in a registered pension plan should receive, upon request, a copy of the pension plan's Rules, the latest accounts and reports prepared in accordance with the Act[3]. This is a statutory requirement to which the operators of all pension plans must adhere. However, the Bank is of the view that, in addition to this statutory requirement, both trustees and plan

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[1] The Central Bank supervises and regulates pension plans established under trust in accordance with section 175 of the Insurance Act, Chap 84:01. Section 175(1) states that
"Subject to the provisions of this Part, where a plan establishes a fund under trusts which are subject to the laws of Trinidad and Tobago, in connection with an undertaking or a combination of undertakings carried on wholly or partly in Trinidad and Tobago, and the main purpose of that fund is—
(a) the provision of superannuation allowances on retirement to persons employed in the undertaking or in the combination of undertakings in connection with which the fund is established;
(b) the provision of pensions to the spouses of persons who are or have been so employed and of periodical allowances to or in respect of the children of such persons; or
(c) the assurance of capital sums on the death of persons who were so employed,
such a plan shall be qualified for registration under this Part if the Rules of the plan comply with the requirements set out in Part I of the Fourth Schedule."

Section 175(1) of the Insurance Act, Chap 84:01 corresponds to section 217(1) of the new Insurance Act which was assented to on June 4, 2018 ("the new Insurance Act"). The Fourth Schedule of the Insurance Act, Chap 84:01 corresponds to Schedule 4 of the new Insurance Act.

[2] See section 174 of the Insurance Act, Chap 84:01. The corresponding section of the new Insurance Act is section 216. Part IX, sections 216 to 229, of the new Insurance Act will replace Part VI, sections 174 to 187, of the Insurance Act, Chap 84:01 when the new Insurance Act is proclaimed.

[3] Section 1 (j) of the Fourth Schedule of the Insurance Act, Chap. 84:01 states that "this Act shall make provisions for the supply (on demand) to every person having any rights in the plan, being a person who is or has been employed in the undertaking in connection with which the plan is established, a copy of the Rules of the plan and of all amendments thereof, and of the latest statements of accounts, balance-sheet and report prepared in accordance with the requirements of the Act"

The corresponding section in the new Insurance Act is Schedule 4 Part 1 (j).

sponsors[4] have an inherent responsibility to provide further information to persons having an interest in a pension plan, in a clear, accurate and timely manner, to assist these persons in making appropriate financial decisions. This Guideline itemises such further information which the Bank considers to be relevant.

1.3 Further, the Central Bank is of the view that trustees and plan sponsors are accountable for the communication function. Trustees and plan sponsors should therefore formally agree on which of them would be responsible for the various aspects of communication mentioned in this Guideline where a suggested responsible party is not expressly stated.

2. PURPOSE OF THE GUIDELINE

2.1 The purpose of this Guideline is to encourage transparency in the operations of pension plans. The Guideline's focus is on information which should be disclosed to a pension plan's membership to promote their knowledge and understanding of the pension plan's operations and their benefit entitlements. It takes into consideration statutory requirements and international best practices[5] on disclosures to pension plan members.

2.2 The Guideline should be used as a tool by which trustees and plan sponsors assess their communication practices and identify where enhancements are required.

[4] The "trustee" and "plan sponsor" are defined in Appendix 1 of this Guideline.

[5] This guideline builds on the framework outlined by the Organization for Economic Co-operation and Development (OECD) and pension communication regulations and guidelines issued in countries such as the United Kingdom, the United States of America, Canada and Jamaica.

2.3 The Guideline will be used by the Central Bank in its evaluation of a pension plan's communications policies and practices as we seek to encourage robust governance frameworks in all pension plans[6].

3. CHARACTERISTICS OF DISCLOSED INFORMATION

3.1 The information disclosed to pension plan members should be: -

3.1.1 ***Comprehensible*** – clearly presented so that it is easily understood by the recipients.

3.1.2 ***Relevant*** – useful and suitable for the information needs of the plan members.

3.1.3 ***Timely*** – related to a recent period and provided no later than six months after the end date of the period covered or the completion date of a referenced report such as audited financial statements or an actuarial valuation report.

3.1.4 ***Reliable*** – accurate, provided at a pre-determined frequency, where practical, and free from material error or bias.

3.1.5 ***Comparable*** – for example, financial information derived from a pension plan's audited financial statements and actuarial valuation reports should be presented in such a way as to enable comparative analyses to be made from year to year or period to period.

[6] The Central Bank's Guideline on Pension Plans Governance can be view at https:www.central-bank.org.tt/core-function/supervision/pensions-sector/pension-sector-legislation-and-guidelines.

3.1.6 ***Material*** – the information is material if any omission or misstatement could change or influence the assessment or decision of a user relying on that information.

3.1.7 ***Accessible*** – documented information should be disseminated through mediums which ensure that members receive it. This may mean the distribution of either hard copy or electronic documents or both.

4. CATEGORIES OF INFORMATION FOR DISCLOSURE

4.1 Information which should be disseminated to a pension plan's membership is as follows:

4.1.1 **Statutory Requirements**

The plan sponsors and trustees should ensure that members, deferred pensioners and pensioners have access to copies of the documents which they are entitled to receive by law, upon request. These are the pension plan's Rules and all amendments thereto, and the latest audited financial statements and actuarial valuation reports.

4.1.2 **A Summary of the Plan's Trust Deed and Rules**

- Each employee, upon becoming eligible to join the plan, should be provided with a summary description of the plan in the form of a membership booklet or some other information document, or be directed to where this information can be found in an electronic format (such as on the plan sponsor's intranet).

- The plan summary should be written in language that the average plan member can understand and, at a minimum, should provide the following information:
  - criteria for membership in the pension plan;
  - the contribution rates for both the employer and member;
  - the determination of interest and how it is applied to contributions;
- benefits payable in the following circumstances and the method for calculating each type of the benefit:
  - on exiting employment prior to retirement age;
  - on early, normal, late or ill-health retirement;
  - on death while a member, deferred pensioner or pensioner;
- a summary of the plan's wind-up rules;
- the requirements for receiving benefits, e.g. minimum service or age requirements;
- the vesting provisions of the plan and what these mean in terms of the benefits payable;
- the portability and transferability of pension benefits;
- the determination of benefits during periods of no pay leave or secondment (if applicable);
- the procedure for requesting information on benefit entitlements;
- the procedure for channeling queries or complaints;
- the procedure for updating the member's personal information such as contact information and beneficiaries;

- a summary of the duties of the plan's trustees, management committee and plan sponsor;
- information on who has the authority to amend the plan's Trust Deed and Rules;
- the name(s) and contact information of the trustee(s).

4.1.3 Plan Amendments

Plan sponsors should ensure that all plan members are provided with the details of any material amendment to the plan and such changes should be reflected in an updated membership booklet or through some other acceptable method of information dissemination[7]. An amendment that is related to the nature of the plan's contributions and/or benefits and/or administrative operations may be considered a material amendment.

4.1.4 Member Specific Information

4.1.4.1 Benefit Statements

Benefit statements should be issued to active members of defined benefit pension plans[8] every three years and every year to members of defined contribution pension plans[9]. The statements should include, at the least, the following information:

[7]. Section 177(1) of the Insurance Act, Chap 84:01 states that "An amendment to the Trust Deed or Rules, or both, of a registered plan shall not be valid unless the amendment is registered." The corresponding section in the new Insurance Act is section 219(1).

[8] A defined benefit plan specifies the monthly payment (benefit) to be received by a pensioner. The benefit is typically specified in terms of years of pensionable service and a percentage of pensionable salary and is calculated using a pre-determined formula.

[9] In a defined contribution plan, the monthly benefit is calculated at retirement and is typically determined by the amount of money paid into the plan by the employer and member, the returns on the plan's investments and the annuity purchase rates at the time the member retires.

- the member's name and date of birth;
- date pensionable service commenced;
- the member's personal contact information;
- beneficiary data, i.e. name, relationship to member, contact information;
- details of any insurance benefit which the pension plan provides e.g. death benefit;
- details of any transfer value received in respect of the member from another pension plan or annuity product;

For the defined benefit pension plan:

- the member's total compulsory contributions and additional voluntary contributions (if any), with the accumulated interest added to each figure[10];
- accrued pension, if the member's benefits are vested;

For the defined contribution pension plan:

- the member's total contributions, additional voluntary contributions (if any) and the employer's contributions made in respect of the member with the accumulated interest or appreciation (negative or positive) in the investment portfolio, added to each figure.

Trustees and plan sponsors are encouraged to obtain feedback from members as to the layout and content of the benefit statements to ensure that they are meeting the members' information needs.

[10] It is common practice for the Trust Deed and Rules of defined benefit plans to provide for a guaranteed interest rate on members' contributions. A separate interest figure might be credited to additional voluntary contributions.

4.1.4.2 **Exit Statements**

If a member of a pension plan ceases to be a member for reasons other than retirement or death, and he or she is entitled to a refund of contributions or a pension payable at some future date (i.e. a deferred pension), the member should receive an exit statement from the plan sponsor within one month following his or her departure.

The statement should include the following:

- the member's name, date of birth and contact information;
- the date on which the member joined the pension plan and the years of service credited under the plan for the purpose of calculating the pension benefit (i.e. pensionable service, if applicable);
- the amount payable as a refund of pension contributions plus interest payable, less taxes (if applicable);
- the pension benefits to which the member is entitled and any payment options with respect to those benefits (this may include the options to access the pension before attaining the pension plan's normal retirement age);
- name and contact information of the member's beneficiary.

Plan sponsors and trustees should note that former members are entitled to receive information on the transfer value payable to another employer's pension plan or to a deferred annuity policy, upon request.

Members who are entitled to a deferred pension should receive updated exit statements in the event that their benefits are adjusted after they leave service but prior to the commencement of pension payments. The Central Bank suggests that notice of any adjustments to pension benefits should be provided to a deferred pensioner no later than three months after the effective date of the adjustment.

For members entitled to an immediate pension and a deferred pensioner whose pension payments are to commence:

At least one month prior to a member's retirement date or the commencement of pension payments, the trustee or plan sponsor should provide the member with a statement which should include the following:

- the member's name and date of birth;
- the member's period of pensionable service;
- the amount of the pension payable or prospectively payable if an annuity is to be purchased on the member's retirement date;
- the pension payment options available, i.e., a full monthly pension or a reduced monthly pension with a commuted lump sum[11];
- the pension payment commencement date;
- the benefit payable in the event of the member's death after retirement;
- name and contact information of the member's beneficiary.

[11] Section 28(6B)(d) of the Income Tax Act allows for the surrender of up to twenty-five per cent of the capitalised value of an annual pension or annuity for a lump sum payment.

At the time of retirement, members should receive correspondence detailing the actual payments made and the ongoing monthly amount payable.

4.1.4.3 **Beneficiary Statements**

If a member or a former member dies with a benefit from the pension plan being payable, the nominated beneficiary or legal personal representative should be provided with a statement within one month of the trustee or plan sponsor receiving notice of the death.

The statement should include the following:

- the amount of the benefit payable;
- the period of time for which the benefit is payable in the event that an ongoing monthly payment is due;
- the conditions under which the payment will cease.

4.1.5 **Annual Reports**

Pension plan members should be provided with an annual report which should include:

i. details of the plan's balance sheet and revenue accounts for the reported year;
ii. a statement of whether all contributions due from the members and the plan sponsor were received and whether all benefits due have been paid;

iii. an explanation for any financial gains or losses experienced, the performance of the investments and a statement of the rate of return earned on the plan's assets[12];

iv. the results of the latest triennial actuarial valuation report, including the actuary's recommendations and any decisions or actions taken by the plan sponsor as a result of the recommendations;

v. any material changes in the plan's membership and how that may affect the plan in the long term;

vi. any changes in the composition of the management committee and any change in trustee(s) or service providers.

Trustees and plan sponsors should make the development of the annual report interactive by requesting members' feedback on the report's presentation and content to determine whether adjustments are needed.

4.1.6 **Communication on wind-up of a Pension Plan**

On the winding-up of a pension plan, the plan sponsor should give written notice, by individual letters, to the members, deferred pensioners, pensioners and beneficiaries in receipt of or due to receive payments. This notice should specify the effective date of and reason(s) for the wind-up and the procedures which will be followed to effect the wind-up. Plan sponsors should also consider issuing a public notice of the wind-up in the form of an advertisement in the daily newspaper for a minimum of once per

[12] The Second Schedule of the Insurance Act, Chap 84:01 specifies the investment instruments in which pension plan assets may be invested. The corresponding section in the new Insurance Act is Schedule 7.

week for two weeks so that persons who cannot be reached by letter may be informed of the wind-up. The notice and letters should provide the affected persons with contact information for the trustees of the pension plan as well.

The trustees should issue progress reports to the members, deferred pensioners, pensioners, and beneficiaries at least once every six months until the benefits due from the pension plan have been secured. The Central Bank is to be similarly updated on the progress of the wind-up to its conclusion[13].

5. METHODS OF INFORMATION DISSEMINATION

5.1 The most commonly used methods of communication between trustees, plan sponsors and plan members include booklets, pamphlets and printed statements. However, trustees and plan sponsors are encouraged to utilize additional methods such as electronic communication and general meetings as this may help to reduce administrative costs and enhance the timeliness of communication to plan members.

5.2 Trustees and plan sponsors who employ electronic methods to communicate with plan members should ensure that sufficient security arrangements are in place to preserve the integrity and confidentiality of documents being transmitted especially with respect to benefit and exit statements.

[13] The Central Bank of Trinidad and Tobago will cancel the registration of a pension plan provided that the requirements of section 179 of the Insurance Act, Chap. 84:01 are satisfied. The corresponding section in the new Insurance Act is section 221. However, section 221 of the new Act expands the requirements stated in section 179 of the Insurance Act Chap. 84.01. Plan Sponsors and Trustees should familiarize themselves with these new requirements.

6. COMMUNICATION EXPENSES

6.1 The cost of distributing information to plan members can be considered as an administrative cost of a pension plan. Efforts should be made to keep these costs to a minimum as they may impact the balance of funds available to members.

6.2 Trustees have a fiduciary duty to account for the use of all plan funds and should have adequate controls in place to ensure that the expenses charged are reasonable and appropriate.

7. DATA MAINTENANCE AND STORAGE

7.1 Trustees and plan sponsors should ensure that they have adequate policies, procedures and systems in place to accurately and reliably capture, store and maintain members' data, including information used for generating benefit and exit statements, on an ongoing basis. Data stored electronically should be regularly backed-up with contingency back-ups done in the event of system failure in accordance with prudent risk management principles.

7.2 Trustees and plan sponsors should ensure that the membership data is easily retrievable to generate benefit statements, to fulfill members' ad hoc requests for benefit information, and to provide accurate data for the preparation of actuarial valuation reports within the legislated timeframe for completion of these reports.

APPENDIX I – DEFINITIONS

Active Member - a member of a pension plan whose service with the employer is ongoing.

Actuary – means a fellow of a professional association of actuaries who possesses such qualifications as may from time to time be specified by the Central Bank. The trustees should appoint an actuary to undertake an investigation into the financial condition of the pension plan. Actuarial valuation reports must be done at least once every three years or with such greater frequency as required by the Central Bank. Actuarial valuation reports must be submitted to the Central Bank within nine months of the pension plan's valuation date.

Auditor – means a person or company whose responsibility is to audit the financial statements of a pension plan and who is in possession of a practicing certificate from the Institute of Chartered Accountants of Trinidad and Tobago (ICATT) or possesses such other qualifications as approved by the Central Bank. An external auditor is required to audit the balance sheet and statement of accounts of the pension plan. Annual audited financial statements for the pension plan must be filed with the Central Bank within six months of the pension plan's year-end.

Beneficiary – a person who on the death of a plan member, is entitled to payment of benefits under the pension plan.

Central Bank of Trinidad and Tobago - the mandate of the Central Bank with respect to the regulation of occupational pension plans covers:

- the safety and soundness of pension plans;

- protection of members and beneficiaries from undue loss;
- the stability of Trinidad and Tobago's financial sector in which the majority of the pension plans' assets are invested.

Deferred Pensioner – a former Active Member entitled to benefits under the pension plan but who has not yet started to receive benefits.

Former Member - a deferred pensioner or member who is entitled to but has not yet received a refund of pension contributions in accordance with the provision of the Trust Deed and Rules.

Management Committee – a committee comprised of representatives from the plan sponsor and the membership with responsibility for overseeing the operations of the pension plan and informing, advising and/or instructing the corporate trustees on matters within the committee's purview. The Income Tax Act specifies that the management committee must be comprised of not less than three members, at least one of whom is a representative of the employees selected by the employees. Members of management committees should meet the Fit and Proper criteria outlined in APPENDIX II of the Central Bank's Guidelines on Pension Plan Governance.

Member - see definition above of Active Member.

Pensioner - a former Active Member in receipt of a pension from a pension plan.

Plan Sponsor – an employer who establishes a pension plan in accordance with the requirements of the Insurance Act, or any replacement legislation, for the benefit of his or her employees.

Trustee – an individual or company appointed to carry out the purposes of a trust in accordance with the provisions of the trust instrument and general principles of trust law. The Income Tax Act specifies that where the trustees of a pension plan are individuals, at least one trustee shall be a representative of the employees, selected by the employees[14]. Where the trustee is a trust corporation, there shall be an established management committee.

[14] Section 30(2) of the Income Tax Act.