



Capital accumulation plans (CAPs) are playing an increasingly prominent role as a part of many organizations' benefits packages. Western Compensation & Benefits Consultants (WCBC) conducted an e-pulse online survey on CAPs in May 2007.

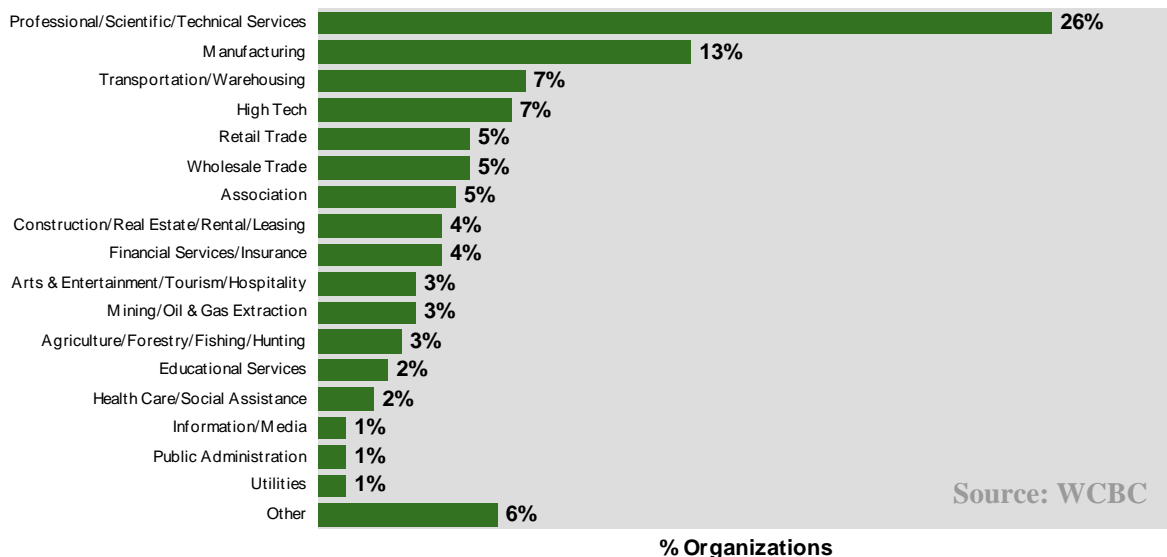
## EMPLOYER PROFILE

214 organizations from across Canada participated in the survey. The average survey organization has over \$400 million in annual revenues and 800 full-time employees. Eighty percent of the organizations are from the private sector (63% privately-owned and 17% publicly traded) while 7% are from the public sector and 13% are not-for-profit organizations. The business classifications of the survey participants are shown below:

## HIGHLIGHTS OF FINDINGS

- ◆ For 83% of organizations, the CAP is the primary retirement savings plan (90% for employers with plan assets of less than \$5 million). A group RRSP is the most prevalent type of plan for 79% of these employers.
- ◆ Ninety percent of employers give their employees a choice of investment options. However, only 50% of employers believe that plan members will make the appropriate investment decisions.
- ◆ The median plan offers 20 investment options, but there is a wide variation between plans from less than five to more than 50 options offered.
- ◆ Almost one-third of plans do not have a default investment option (40% for plans with less than \$5 millions of assets).
- ◆ Forty-four percent of employers either do not or do not know if they have a statement of investment policy and 50% of employers do not review the statement of investment policy annually.
- ◆ Almost 25% of organizations do not review the investment performance of the investment options.
- ◆ Large plans (assets of \$5 million or more) have significantly lower investment management fees than smaller plans (assets of less than \$5 million).
- ◆ Only 52% of organizations believe that fees and expenses borne by their plan members are clearly disclosed.
- ◆ Fifty-two percent of organizations without a CAP at present plan to implement a CAP in the next few years.

## Business Classification

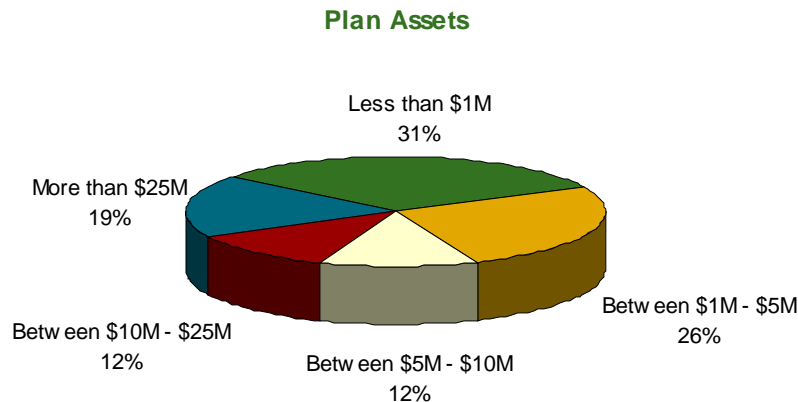




## CAPITAL ACCUMULATION PLANS

Eighty-three percent of organizations said that the capital accumulation plan (CAP) was the primary retirement savings plan (90% of organizations with plan assets of less than \$5 million).

The asset size of the CAPs are summarized below:



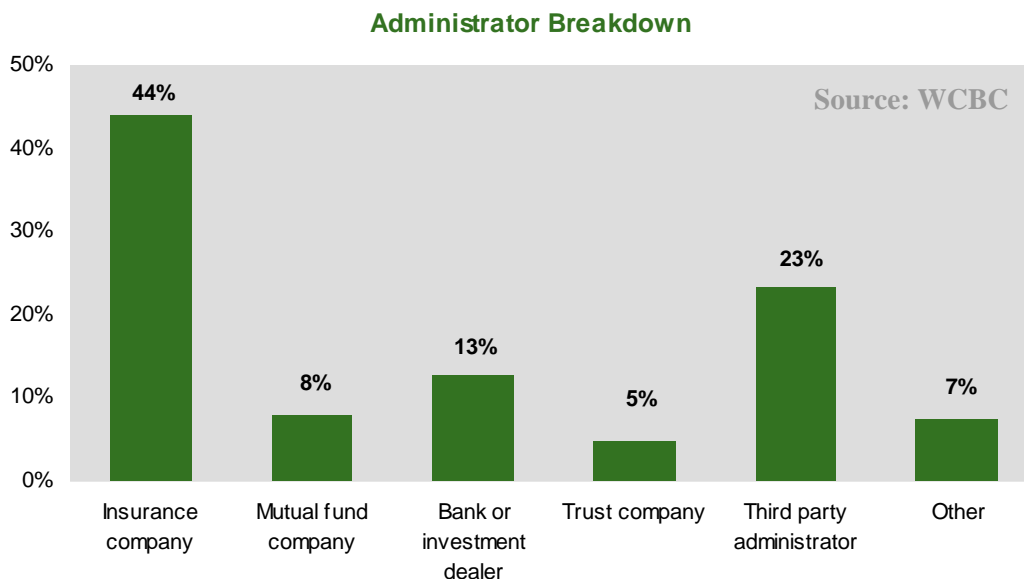
Source: WCBC

Of the organizations that offered a CAP: 79% had a group RRSP; 38% had a defined contribution pension plan; and 10% a deferred profit sharing plan (DPSP).

Over 50% of organizations with a defined contribution pension plan also offered a group RRSP, whereas almost 90% of organizations with a DPSP also had a group RRSP (100% for organizations with under \$5 million in plan assets).

Ninety-three percent of employers contribute to their CAP and 95% involve employee contributions (either required or voluntary).

A breakdown of the administrators of the CAP is provided below.



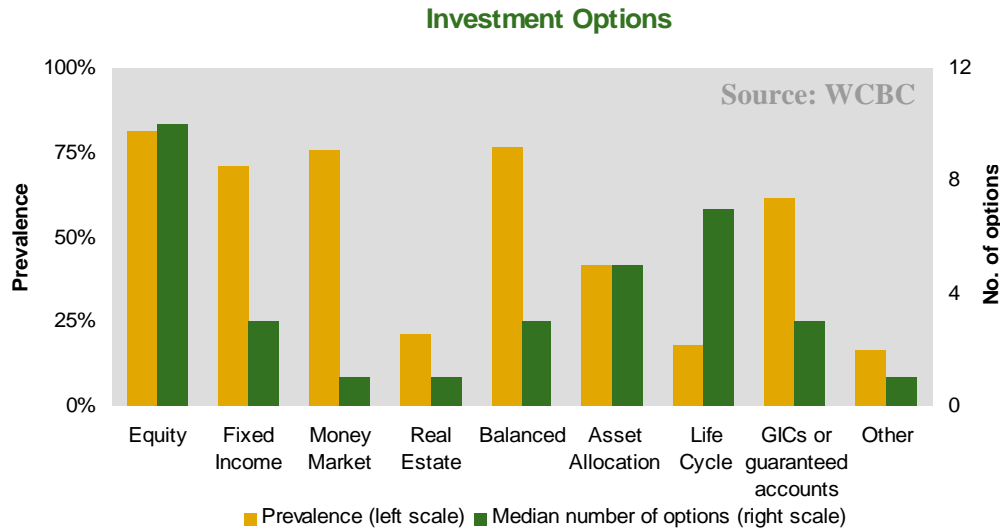
Source: WCBC

Fifty-two percent of organizations without a CAP at present, plan to implement a new CAP in the next few years.



## INVESTMENT OPTIONS

Ninety percent of organizations give their employees a choice of investment options. The median number of investment options offered is 20. The following are the prevalence of type of investment options and the median number of options provided for each investment category.



Plans with assets of less than \$5 million typically provide more investment options on average than larger plans.

Forty percent of organizations include index funds in the investment options offered.

There is a large dispersion in the number of investment options offered by plans. The following provides a breakdown of the number of investment options offered.



Despite the wide variation in the number of investment options offered by plans, the vast majority of organizations indicated that they feel that they have the right number of options (88%) and the right mix of options (95%). Ten percent of organizations feel their plan(s) have too many investment options. Only 3% of organizations feel their plan(s) have too few investment options.

Some of the comments made by organizations that feel they have too many investment options are:

*More options are available than an average, unsophisticated investor/employee can reasonably decide on.*

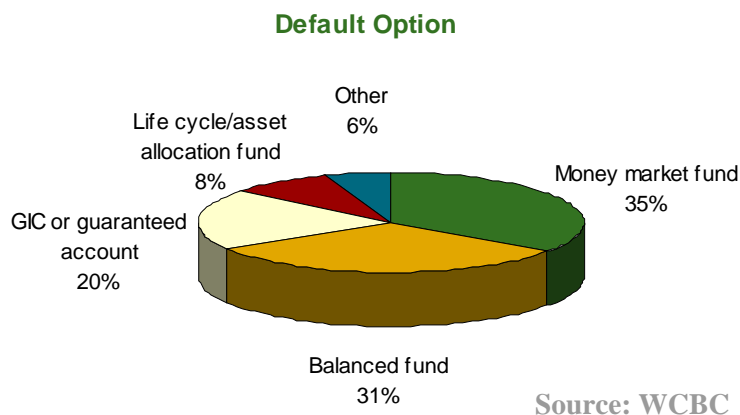
*We are gradually reducing the fund numbers due to fiduciary monitoring requirements but want to maintain a "good mix".*

*Fifty-five possible investment options often confuse all but the experienced investor.*

One-third of organizations allow the administrative service provider (insurance company, mutual fund company or third party administrator) to decide on the investment options to be offered by the plan; over 40% of organizations have a plan committee or let employees choose the investment options to be offered. On the other hand, 25% of employers make the decision regarding investment options themselves.

Only 43% of organizations review the number of investment options and 47% of organizations review the specific investment options offered on at least an annual basis. Of the remainder, 36% review the investment options less frequently and 21% indicate that they do not review the investment options.

The Canadian Association of Pension Supervisory Authorities (CAPSA) has issued guidelines for the operation of CAPs. One of the guidelines is that an organization should establish a policy when a member does not make an investment choice. However, almost one-third of the survey respondents indicated that they do not have a default investment option for their plan (40% for plans with less than \$5 million in assets). The breakdown of the default option is provided below:



The high proportion (35%) of plans specifying a money market fund as the default investment option is surprising, as a money market fund may not be considered to be a prudent investment for a plan that is intended as a retirement savings vehicle. Also surprising is that only 5% of plans are considering changing their default investment option.



## FIDUCIARY RESPONSIBILITY

Over 90% of organizations believe that their employees have the information needed to make investment decisions. However, one-third of organizations do not believe that, or do not know if, their employees use the information available or have the knowledge or ability to make the appropriate investment decisions. Only one-half of organizations believe that their employees make appropriate investment decisions.

Forty-four percent of organizations either do not or do not know whether they have a statement of investment policy (52% for organizations with plan assets of less than \$5 million) and 50% of organizations do not regularly review the statement of investment policy (60% for organizations with smaller plans).

Seventy-six percent of organizations monitor the investment performance of the investment options offered on an annual or more frequent basis; 24% do not. The following is a breakdown of who provides the investment performance monitoring:

Employer	29%
Administrative service provider <sup>1</sup>	38%
Consultant	18%
Broker	9%
Other	7%

Source: WCBC

**Note:**

<sup>1</sup> Insurance company, mutual fund company or third party administrator.

Of the organizations who monitor investment performance, the following is what is monitored.

	All Plans	Smaller Plans <sup>1</sup>
Rates of return only	31%	32%
Returns against benchmarks	61%	44%
Returns against other investment funds	46%	37%

Source: WCBC

**Note:**

<sup>1</sup> Plans with assets of less than \$5 million dollars.

Twenty-nine percent of organizations indicated that they are planning to review their CAP service provider(s) during the next three years. Seventy-one percent have no plans for such a review.



## FEES AND EXPENSES

Almost 50% of plans share the cost of the plan(s) between the employer and employees.

Seventy percent of organizations state that the fees and expenses borne by plan members are disclosed to the plan members, but only 52% believe they are clearly disclosed. CAPSA's Guidelines require that all CAP sponsors must provide plan members with a description and amount of all fees and expenses that are borne by the members.

There is a wide range of investment management fees paid by plans, with smaller plans paying significantly higher investment management fees than larger plans. The following are the median and range of annual investment management fees paid for each type of investment option, as a percentage of assets per year.

### Annual Investment Management Fees

	Median			Range
	All plans	Large Plans <sup>1</sup>	Smaller Plans <sup>2</sup>	
Money Market	1.0%	0.7%	1.3%	0.2% - 2.2%
Equity	1.4%	1.1%	1.8%	0.4% - 3.0%
Fixed Income	1.2%	0.9%	1.6%	0.2% - 3.0%
Real Estate	1.9%	1.1%	1.9%	1.0% - 3.0%
Balanced	1.4%	1.0%	1.7%	0.4% - 3.0%
Asset Allocation / Life Cycle	1.5%	1.2%	1.9%	1.4% - 2.8%

**Notes:**

<sup>1</sup> Plans with assets of \$5 million or more.

<sup>2</sup> Plans with assets of less than \$5 million.

Source: WCBC

Twenty-nine percent of organizations do not pay commissions to a third party (broker/agent/consultant). Thirty-nine percent do pay commissions (which are typically reflected in higher investment management fees) and 32% do not know if commissions are being paid.

Only 60% of organizations review the investment management fees and other fees and expenses paid by the plan on an annual or more frequent basis (less than 50% for organizations with plan assets of less than \$5 million). Twenty-seven percent of those who review their fees and expenses indicate that they are considering renegotiating these fees or expenses.

---

**For further information, please contact:**

Western Compensation & Benefits Consultants  
Suite 2000  
1188 West Georgia Street  
Vancouver, BC V6E 4A2

Toll free 1-800-781-2411  
E-mail [wcbc@wcbc.ca](mailto:wcbc@wcbc.ca)  
[www.wcbc.ca](http://www.wcbc.ca)