

Case study

GROUP ANNUITY PLANS

January 2016

Important information for supervisors:

This case study model is optional and can be adapted for specific circumstances. The *Autorité des marchés financiers* recommends however that the model contain the same process steps and similar questions.

Name of trainee: _____

Personal Identification Number: _____

Date document remitted: _____

1st Edition, 2016**Written by**

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Group annuity plans

Introduction

As part of the group annuity plans certification process, section 49.1 of the Regulation respecting the issuance and renewal of representatives' certificates (CQLR, c. D-9.2, r. 7) (the "Regulation") stipulates that the trainee must complete a case study during the probationary period. The *Autorité des marchés financiers* (the "AMF") is proposing this case study model for group annuity plan supervisors and trainees. The firm may choose to develop its own model that is more representative of its clients' reality, provided that this model contain the same process steps and similar questions and will be included in the trainee's file.

Supervisors use this tool to validate trainees' understanding of the process that requires them to prepare a group annuity plan recommendation.

Supervisors can access the answer key by submitting a written request to the AMF. The document is confidential, and its use must remain limited.

Procedure

Around the fifth week of the training period, the supervisor gives the case study to the trainee. The proposed duration of the activity is three days, but can vary depending on each employer's situation (training area).

The AMF strongly suggests that the trainee complete the case study on his own. This step enables the supervisor to validate the trainee's understanding of the process to prepare a recommendation and identify the aspects he has not mastered. The supervisor can therefore address any weaknesses observed and evaluate the success of the training period.

The supervisor files the case study documents in the trainee's file in accordance with section 49.1 of the Regulation.

The supervisor can then issue his recommendation regarding the successful completion of the training period and submit his report to the firm for approval. He must send his recommendation and report to the AMF within 10 days of the end of the probationary period by online services or to the following address:

Autorité des marchés financiers
Place de la Cité, tour Cominar
2640, boulevard Laurier, bureau 400
Québec (Québec) G1V 5C1

Contents

The case study covers the following steps of the process to prepare a group annuity plan recommendation.

1. Solicitation and representation
2. Analysis of client needs
3. Preparation of quote tender
4. Analysis of quotes received
5. Preparation of recommendation
6. Implementation of recommendation
7. After-sales service

Case study overview

Étienne, a group annuity representative, must submit a group annuity recommendation adapted to the needs of a client, *Médical ULT*, which manufactures medical and research equipment.

The company has 40 full-time employees, all of whom participate in its defined contribution pension plan, which was set up 15 years ago. From the outset, the pension fund has been invested with ADC, an insurer that also provides plan administration and communication services.

Under the current plan, the employer and employee contribution rate is 5% of the employee's salary. Each plan participant manages his own contributions and the employer's contributions made on his behalf, from among the investment options offered by ADC.

The annual contribution to the pension plan is around \$300,000 and accumulated assets currently total \$4,000,000.

At the most recent general meeting of participants, the pension committee noticed that participants were not fully satisfied with the current service provider. The committee therefore decided to mandate a group annuity representative to recommend a service provider that will better meet their expectations.

Step 1: Solicitation and representation

Case study – cont.

Étienne has regularly contacted this company when soliciting new clients. Louis, the company's financial services director and a member of the pension committee, contacts Étienne, whom he had met previously, and asked him to present his services to the committee following the committee's decision to replace the current service provider. The meeting is scheduled for the following week.

To plan for the meeting, Étienne prepares a sample mandate that the pension committee must sign to officially authorize Étienne to work on this file.

Instructions 1-A

Prepare a sample exclusive representation mandate. (6 points)

Exclusive representation mandate

Date

To: Étienne, group annuity representative (contact information)

Dear Sir:

Subject:

Yours truly,

Louis, Financial Services Director and Pension Committee Member
(contact person) Signature

Étienne (representative's signature) Date

Case study – cont.

The following week, Étienne meets with Louis, the financial services director, and the other members of the pension committee.

Étienne thanks Louis and the committee members for the opportunity to meet with them and present his group annuity services. He outlines the range of services he offers his group annuity clients.

Louis details the features of the company's defined contribution pension plan, which was set up 15 years ago. He gives a summary of the plan to Étienne.

Features of Médical ULT's employee pension plan

Type of plan	Defined contribution pension plan	
Effective date	15 years ago	
Employee contribution rate	5% of salary	
Employer contribution rate	5% of employee's salary	
Number of participants	40	
Total annual contributions	\$300,000	
Plan assets	\$4,000,000	
Current allocation of assets	40% diversified funds – 30% Canadian equities – 30% bonds	
Administration fee	\$5/participant/month	Management fee: 2.25%

Case study – cont.

The pension committee feels that since participants are responsible for their investments, they should have communication and education services that meet their expectations.

Étienne points out that his role as a group annuity representative includes finding a service provider that fits perfectly with the client's needs and expectations. He presents the sample mandate authorizing him as the exclusive representative, which the committee completes and Louis signs.

Étienne asks Louis to give him the relevant documents, namely, the plan text, the services contract with the current insurer, the plan's financial statements and all communication documents given to participants.

Step 2: Analysis of client needs

Case study – cont.

In reading through the documents, Étienne notices that the pension plan is funded through a service contract but that the fees are not adequate for the current level of assets and contributions. He also notices that the investment options offered to participants are limited and often underperforming. In addition, Étienne thinks that communication services (call centre and decision-making tools) offered to participants could be improved.

Étienne identifies the improvements needed to the product and services, validates them with the pension committee, and mentions that they must be part of the call for tenders.

Étienne also presents his plan to the committee for the call for tenders, for analyzing quotes, and for recommending and, if necessary, setting up a new service provider. The committee agrees with Étienne's plan.

Instructions 2-A

Using the information provided in the above case study description, indicate the main improvements that are needed to the current group annuity plan. (3 points)

Step 3: Preparation of quote tender

Case study – cont.

Étienne drafts his tender to send to insurers.

Instructions 3-A

What information affecting fees does Étienne have to present in his tender? (4 points)

Instructions 3-B

What general information must Étienne ask insurers to provide so that he can compare their quotes? (5 points)

Instructions 3-C

What information must Étienne ask insurers to provide so that he can compare their administration services? (3 points)

Instructions 3-D

Since investments are a key part of choosing a service provider, what aspects must Étienne ensure that he compares using his quote tender? (6 points)

**Instructions 3-E**

With pension plans like that of *Médical ULT* where participants must make their own investment choices, the insurer's communication and education services are very important. What information about these services does Étienne have to include in his specifications? (5 points)

**Instructions 3-F**

What information must Étienne specifically request in his specifications about fees charged for the insurer's services? (3 points)



Case study – cont.

Étienne drafts his tender by asking all questions that will enable him to identify the best service provider for his client. He sends his tender to three insurers previously chosen by the pension committee and asks them to respond within 15 days.

Step 4: Analysis of quotes received**Case study – cont.**

When he receives the quotes from the three service providers, Étienne reads through them carefully to identify the key aspects of each one. He then carries out a quantitative and qualitative analysis of the quotes.

Instructions 4-A

Which aspects must be part of Étienne's quantitative analysis? (3 points)

Instructions 4-B

Which aspects must be part of Étienne's qualitative analysis? (4 points)

Step 5: Preparation of recommendation

Case study – cont.

To compare the quotes received, Étienne summarizes the characteristics of each quote in the table below. This allows him to compare the following aspects: overview, administration, investments, communications and fees.

To compare the proposals received with the existing annuity plan, Étienne enters the characteristics of the current insurer's product in the first column of the table.

Comparison table Médical ULT pension plan

	Current insurer	Insurer A	Insurer B	Insurer C
OVERVIEW				
Financial strength	Very good	Excellent	Excellent	Very good
Assets under management	\$4.3 billion	\$6.5 billion	\$4.5 billion	\$3.0 billion
Location	Toronto	Toronto	Montréal	Montréal
Technology capabilities	Very good	Excellent	Excellent	Very good
ADMINISTRATION				
Service standards	Very good	Excellent	Good	Very good
Administration capabilities	Very good	Excellent	Very good	Very good
Contents of reports and statements	Very good	Very good	Very good	Very good
INVESTMENTS				
Number of managers	10	12	18	9
Quality of managers	Good	Good	Good	Very good
Number of funds	29	45	59	31
Quality of funds	Good	Excellent	Excellent	Bonne
Performance	Very good	Excellent	Very good	Average
Quality of follow-up team	Very good	Excellent	Very good	Very good
Quality of follow-up process	Good	Excellent	Good	Very good
COMMUNICATIONS				
Quality of materials	Good	Very good	Very good	Good
Call centre	Very good	Excellent	Very good	Very good
Website	Very good	Excellent	Very good	Excellent
Communications and education services	Good	Very good	Good	Very good
Complementary services	Good	Very good	Good	Good

	Current insurer	Insurer A	Insurer B	Insurer C
FEES				
Administration	\$5/participant/month	\$3.50/participant/month	\$5/participant/month	\$5/participant/month
Fund management	2.25%	1.75%	1.90%	1.55%
Other services	Average	Weak	Average	Average

Case study – cont.

Participants in the *Médical ULT* pension plan are responsible for their investments. They must therefore have the tools needed to make the right choices. The “Investments” and “Communications” components are very important. Étienne therefore decides to weight the components of the comparison as follows:

- Overview: 10%
- Administration: 15%
- Investments: 35%
- Communications: 25%
- Fees: 15%

Instruction 5-A

Complete the weighting table and summary table for *Médical ULT's* pension plan (92 points)

Weighting table***Médical ULT* pension plan**

	Maximum %	Current insurer	Insurer A	Insurer B	Insurer C
OVERVIEW					
Financial strength	2.5%				
Assets under management	2.5%				
Location	2.5%				
Technology capabilities	2.5%				
Subtotal	10%				
ADMINISTRATION					
Service standards	5%				
Administration capabilities	6%				
Contents of reports and statements	4%				
Subtotal	15%				
INVESTMENTS					
Number of managers	5%				
Quality of managers	7%				
Number of funds	5%				
Quality of funds	7%				
Performance	5%				
Quality of follow-up team	3%				
Quality of follow-up process	3%				
Subtotal	35%				
COMMUNICATIONS					
Quality of materials	5%				
Call centre	5%				
Website	5%				
Communication and education services	5%				
Complementary services	5%				
Subtotal	25%				

	Maximum %	Current insurer	Insurer A	Insurer B	Insurer C
FEES					
Administration	6%				
Fund management	6%				
Other services	3%				
Subtotal	15%				
TOTAL	100%				

Summary table
Médical ULT pension plan

	Maximum %	Current insurer	Insurer A	Insurer B	Insurer C
OVERVIEW	10%				
ADMINISTRATION	15%				
INVESTMENTS	35%				
COMMUNICATIONS	25%				
FEES	15%				
TOTAL	100%				

Case study – cont.

Étienne drafts a report summarizing the quotes and the strengths of each one and recommends the insurer that obtained the highest score in the weighting table. He meets with the pension committee to present his recommendation. The committee accepts his recommendation.

Instructions 5-B

**Based on the results obtained, which insurer should Étienne recommend?
Justify your answer. (2 points)**

The choice of insurer is _____.

Step 6: Implementation of recommendation

Case study – cont.

Since the pension committee accepts Étienne's recommendation, he must now implement it.

Instructions 6-A

Once the pension committee accepts Étienne's recommendation regarding the choice of new service provider, what steps must be taken to implement it? (5 points)

Step 7: After-sales service

Case study – cont.

To ensure that his client is fully satisfied with his services and those of the new service provider, Étienne must do the necessary follow-up on the plan.

Instructions 7-A

After the new service provider has been selected and the plan has been set up, what follow-up must Étienne do with the insurer? (3 points)

Instructions 7-B

What aspects must Étienne follow up on with the pension committee and plan participants? (6 points)

To follow up with the pension committee, Étienne must:

To follow up with participants, Étienne must:

This completes the group annuity plans case study.
Please give this document to your training supervisor.

Scorecard

The total number of points is 150. You must divide your total by 3 and multiply by 2 to obtain a total out of 100 points. The passing grade is 70%.

Instruction number	Points obtained	Total points
1-A		6
2-A		3
3-A		4
3-B		5
3-C		3
3-D		6
3-E		5
3-F		3
4-A		3
4-B		4
5-A		92
5-B		2
6-A		5
7-A		3
7-B		6
Total	_____	/150
	_____ /3 × 2	_____