

CAPITAL ACCUMULATION PLAN OVERVIEW

Setting up a CAP

Introducing the plan
to CAP members



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THE HIGHLIGHTS

What is a Capital Accumulation Plan (CAP)?

The term 'Capital Accumulation Plan' (CAP or plan) refers to a tax assisted investment or savings plan that permits the CAP members to make investment decisions among two or more options offered within the plan (i.e., a Group RSP).

Who developed the CAP Guidelines?

The CAP Guidelines were developed by the Joint Forum of Financial Market Regulators.

When did the CAP Guidelines come into effect?

The CAP Guidelines were introduced in May 2004 and came into affect December 31, 2005. While voluntary in nature, these guidelines reflect the expectations of regulators regarding the operation of a CAP.

Where would it be possible to locate a copy of the CAP Guidelines?

A copy of the CAP Guidelines is available on the Joint Forum of Financial Market Regulators Web site, (<http://www.jointforum.ca/en/final>).

Why were the CAP Guidelines introduced?

The intent of the CAP Guidelines is to:

- Outline and clarify the rights and responsibilities of CAP sponsors, service providers, and CAP members; and,
- Ensure that CAP members are provided the information and assistance that they need to make investment decisions in a Capital Accumulation Plan.

Note: Within these guidelines, employers are referred to as "CAP sponsors", and "service providers" include any provider of services or advice required by the CAP sponsor associated with the CAP. Individuals who have assets in a CAP are referred to as "CAP members".

The purpose of this booklet

Empire Life has designed the following overview to assist CAP sponsors in their effort to comply with the CAP Guidelines and help them ensure that they have taken the necessary steps to continue to meet the responsibilities associated with their role (i.e., Provide investment information, decision-making tools, on-going communication to CAP members, etc.). As outlined later in this booklet, where a CAP sponsor does not have the necessary knowledge and skills to carry out its responsibilities, service providers should be used.

The CAP Guidelines act to supplement any legal requirements that may be associated with the implementation and maintenance associated with a CAP. CAP Sponsors should consult with their legal advisors to confirm they are acting in compliance with any legal requirements associated with their plan, as well as with the CAP Guidelines. Empire Life and its affiliates assume no liability with respect to the use of this overview.

Setting up a CAP

1. Define and document purpose of CAP.

Example of a CAP purpose:

- Retirement savings plan
- Plan design to be consistent with plan goal

Document CAP purpose:

2. Establish criteria for service provider (financial advisor) selection.

Factors to consider:

- Professional training (i.e., CFP, CLU, EPC, etc.)
- Related experience/specialization
- Cost of service
- Level and quality of service provided

Document criteria and rationale for decision:

3. Select investment options.

Examples of investment options:

- Treasury (or Daily) Interest Option
- Guaranteed Interest Options (GIOs)
- Segregated Funds

Factors to consider:

- CAP purpose
- Number of investment options available and degree of diversification
- Fees associated with investment options
- Demographics of CAP members
- Liquidity of investment options
- Level of risk associated with investment options

Notes:

1. CAP members are to be given reasonable opportunity to transfer among investment options within the plan.
2. The default investment option within an Option Plus Group RSP is the Treasury Interest Option, although investment instructions are ultimately required for all deposits.

3. CAP Sponsors should periodically review appropriateness of options.

Document investment options selected and the rationale for your decision:

4. Maintenance of records by CAP Sponsor.

- Establish a document retention policy

Factors to consider:

- Describe types of documents to be retained
- How long will various documents be retained
- Who can access the documents

Document retention policy:

Investment information and decision-making tools for CAP members

1. CAP Sponsor should ensure investment information and decision-making tools are made available to assist CAP members in making investment decisions. Cost should not be a disincentive for CAP members.

Examples of investment information:

- Glossaries of investment terms
- Information about how Segregated Funds work
- Information about investing in different types of securities (i.e., Bonds, Equities, etc.) and the expected level of risk and return associated with different investment options
- Product guides
- Segregated Fund performance reports

Examples of investment decision-making tools:

- Asset allocation model
- Retirement planning tools (if applicable)
- Calculators and projection tools to help determine required contribution level and project future balances
- Investor profile questionnaires

Investment information and investment decision-making tools sources:

A financial advisor may provide investment information and decision-making tools.

Empire Life will make brochures, materials and online calculators available to CAP members.

Note: A financial advisor can provide CAP members with information and tools that focus on retirement planning.

Document investment information and decision-making tools available to CAP members:

2. Investment advice

A CAP Sponsor may choose to enter into an arrangement with a service provider who can provide CAP members with advice about their investment decisions. If CAP Sponsors enter into such an arrangement, the CAP Sponsor should establish a selection criterion to be used when selecting a service provider.

Factors to consider when selecting a service provider to provide investment advice to CAP members:

- Criteria used to select service providers outlined on page 2 of this overview guide
- Any real or perceived lack of independence relative to other service providers, the CAP Sponsor, and the CAP members
- Any legal / licencing requirements needed to provide investment advice
- Any complaints filed against the advisor or their firm and any disciplinary actions taken (if known)

Introducing the plan to CAP members

1. Provide CAP members with information regarding the plan's nature and features.

- Contribution levels
- Investment options available
- How to choose investments
- How choices can be changed
- How long it will take for choices to be implemented
- Policy regarding failure to specify investment choice(s)
- Name of service providers with whom CAP members interact

Document materials provided and steps taken to provide CAP members with information regarding the plan's nature and features:

2. Provide CAP members with information regarding their rights and responsibilities within the CAP.

- CAP member's right to access information about the nature and features of the plan
- CAP member's right to request paper copies of their statements if the statement is provided in another format
- CAP member's responsibility for making investment decisions and that those decisions will affect the amount of money accumulated in the plan
- CAP member's responsibility for informing themselves about the plan, using the documents, information and tools available to CAP members
- Recommend that CAP members obtain investment advice from an appropriately qualified individual, in addition to using any information or tools the CAP Sponsor may provide

Document materials provided and steps taken to provide CAP members with information regarding their responsibilities within the plan:

3. For each Segregated Fund available within the plan, provide CAP members with the following:

- Name of Segregated Fund
- Name of all investment management companies responsible for the day-to-day management of Fund assets
- Investment objective of the Fund
- Types of investments the Fund may hold
- Description of the risks associated with investing in the Fund
- Where a CAP member can obtain information regarding the Fund’s portfolio holdings, and other detailed disclosure about the Fund
- Whether a Fund is considered foreign property for income tax purposes and, if so, a summary of the implications of that status for a CAP member who invested in the Fund

A financial advisor is able to discuss investment options with each CAP member.

Document materials provided and steps taken to provide CAP members with information regarding the Segregated Funds offered within the plan:

4. When investment options other than Segregated Funds are included in the plan (i.e., Treasury Interest Option, GIOs), provide CAP members with the following:

- Description of investment, including name
- Investment type and objective
- Risk associated with the option
- Whether the option is considered foreign property and, if so, the implications for CAP members

Document materials provided and steps taken to provide CAP members with information regarding investment options other than Segregated Funds:

5. Provide CAP members with information about how to make transfers among investment options.

- Forms required and where they are to be sent
- Whether other transfer methods are available (i.e., Web-based)
- Any costs associated with transferring among investment options

- Any restrictions to the number of transfers among investment options a CAP member is permitted within a given period, including any maximum limit after which a fee would be applied
- A description of possible situations where transfer options may be suspended

Examples: The CAP Sponsor is changing investment options, a service provider is being changed, or, there are changes at the existing service provider (e.g., implementation of a new system).

Document materials provided and steps taken to provide CAP members with information regarding how to make transfers among investment options within the CAP:

6. Provide CAP members with the description and amount of all fees, expenses and penalties relating to the plan that are borne by the CAP members, including:

- Any costs that must be paid when investments are bought or sold
- Costs associated with accessing or using any of the investment information, decision-making tools or investment advice provided by the CAP Sponsor
- Segregated Fund management fees
- Segregated Fund operating expenses
- Record keeping fees
- Any costs for transferring among investment options (including penalties, book or market value adjustments, and tax consequences)
- Account fees
- Fees for services provided by service providers

Document materials provided and steps taken to provide CAP members with information regarding the plan's fees, expenses, and penalties that are borne by CAP members:

7. Provide CAP members with an outline of how they can access additional information related to the plan and a description of the type of information available.

Empire Life provides each CAP member with an Option Plus Group RSP Plan Overview brochure (GP-0001-ENG), and each CAP Sponsor with an Option Plus Group RSP contract, and an Administrative Guide. For additional information, please visit our Web site at www.empire.ca.

Document materials provided and steps taken to provide CAP members with information regarding how they can access additional information related to the plan and a description of the type of information available:

Ongoing communication to CAP members

1. CAP Sponsors should regularly provide CAP members with information on their CAP account and the performance of the investment funds available within the plan. The CAP Sponsors should also provide access to additional information upon request to CAP members.

2. CAP Sponsors should provide CAP members with a statement of their CAP account at least annually that includes:

- Summary of investments by type (i.e., GIO, Segregated Funds, etc.)
- Investment activity (i.e., Opening balance, contributions, withdrawals, net changes in the value of investments, and closing balance)
- Segregated Funds (i.e., Fund name, number of units, unit value, total investment value, percentage of total investments)
- Summary of transactions
- How to get information on each investment option, fees, and expenses, transaction details, transfer options, etc.

The Empire Life semi-annual CAP member statements provide detailed information regarding each CAP member's investments and account history. The semi-annual statements also provide each CAP member with the name and contact information of the financial advisor associated with the CAP in case they have any questions. Detailed performance reporting data is included in the Empire Life Investment Funds Annual Report (INP-0020-ENG). The Investment Funds Annual Report and the Investment Funds Semi-annual Report are available to CAP members upon request and on our Web site at www.empire.ca. A financial advisor may also provide CAP members with objective third party performance data to indicate the relative competitiveness of the investment options within the plan.

Document materials provided and steps taken to provide CAP members with a statement of their account on at least an annual basis:

3. The CAP Sponsor should provide CAP members with access to additional information regarding their CAP account.

For example, if not included in the CAP member statement, provide CAP members with the following information on request:

- Details on Segregated Funds – where to get Fund holdings, financial statements and continuous disclosure information for each Fund
- Transactions details – investment description, date of transaction, transaction type, amount, unit value, units purchased or withdrawn
- Details of GIOs, and other fixed term investments such as, term of investment, date of maturity, interest rate, current book value plus accrued interest
- Details on each of the other investment options
- Contribution details – option description, percentage of contribution (CAP member voluntary, CAP member required, employer, transfer-in)
- Details on fees and expenses
- Information on transfer options

The Empire Life semi-annual CAP member statements provide detailed information regarding each CAP member's investments and account history. This statement also provides CAP members with the name and contact information of the financial advisor associated with the CAP in case they have any questions. In addition, Empire Life provides each CAP member with an Option Plus Group RSP Plan Overview brochure (GP-0001-ENG), and each CAP Sponsor with an Option Plus Group RSP contract, and an Administrative Guide. For additional information, please visit our Web site at www.empire.ca.

Document materials provided and steps taken to provide CAP members with access to additional information regarding their CAP account:

4. CAP Sponsors should provide advance notice to CAP members when there are 'significant changes' in investment options.

Note: 'Significant changes' include: Changes to the nature or operation of existing investment options, including the method of making transfers, adding/removing/replacing investment options, changes in fees and expenses or a change in service providers.

Empire Life will communicate any significant changes in investment options that result from actions taken on behalf of the company (i.e., Empire Life). Empire Life will communicate any significant changes directly to CAP Sponsors, CAP members and financial advisors.

The notice to CAP members should include:

- Effective date of the change
- Brief description of the change and the reasons for the change
- How the change could affect the CAP member's holdings in the plan (i.e., if the change affects the level of risk of an investment option, this should be described)
- The manner in which assets will be allocated to new investment options (if applicable)
- Details of any penalties or special transaction fees that may apply to the change
- Summary of the tax consequences that may arise as a result of the change
- Where to get more detailed information about the change
- Details on what the CAP members must do (if action is required) and the consequences of not taking action
- Remind CAP members to evaluate the impact of the change on their current holdings in the plan

Document materials provided and steps taken to ensure CAP members will be provided with advance notice when there are 'significant changes' to the investment options:

5. CAP Sponsors should provide performance reports for each Segregated Fund to the CAP member, at least annually, that include:

- Name of Segregated Fund
- Name and description of the benchmark for the Segregated Fund, if applicable, and if used, the corresponding returns for the benchmarks

- Performance of the Segregated Fund, including historical performance for one, three, five and 10 years (if applicable)
- Whether the investment performance is gross or net of investment management fees and Fund expenses
- Identify the method used to calculate performance of the Fund, along with directions on where to find a more detailed explanation
- A statement of past performance of a Fund is not necessarily an indication of future performance

Empire Life provides each CAP member with an Option Plus Group RSP Segregated Funds Highlight booklet. Updated versions of the booklet as well as additional performance and financial information about the Funds is available upon request or on our Web site at www.empire.ca.

Document materials provided and steps taken to provide CAP members with information regarding performance reports for each Segregated Fund on at least an annual basis:

Maintaining a CAP

1. The CAP Sponsor should establish criteria for the periodic review of service providers and use these criteria to review the service provider(s) it engages.

Factors to consider:

- The criteria used to select the service provider
- Frequency and/or triggering events for the review
- Any complaints arising from CAP members
- Action to be taken if the service provider fails to meet the criteria

Document criteria to be used regarding the periodic review of service providers:

2. The CAP Sponsor should establish criteria for periodic review of each investment option in the plan. This review should take place at least annually.

Factors to consider:

- The criteria used to select the investment options
- The frequency and/or triggering events for the review
- Action to be taken if the investment option no longer meets their criteria

Document criteria to be used regarding the periodic review (i.e., at least annual) of each investment option:

3. The CAP Sponsor should periodically review how well the plan's records are maintained.

Factors to consider:

- Review the CAP member's complaints about the records
- Periodic audit/review by the service provider
- If the service provider maintains the records, require an annual certification regarding the appropriateness of the controls, processes and systems employed, or have an unrelated service provider conduct the review
- Take any corrective action required promptly

Document how the plan records are to be maintained and reviewed:

4. The CAP Sponsor should periodically review any decision-making tools provided to CAP members or that the CAP members are encouraged to use.

Factors to consider:

- The purpose of the plan
- What types of decisions CAP members must make
- Cost of the decision-making tools
- The location, diversity and demographics of the CAP members
- The CAP member's access to computers and the internet
- Make any changes required in the decision-making tools as required

Document the review process regarding the decision-making tools provided to CAP members:

Terminating a CAP

The termination of a CAP should be done in accordance with the terms of the plan and any applicable legal requirements.

1. If a CAP is terminated, the CAP Sponsor should promptly provide information to CAP members regarding:

- Options available to each CAP member
- Any actions required in respect to the CAP member's options
- Any deadlines for CAP member action
- The manner in which assets will be liquidated or distributed
- Any default options that may apply if no action is taken
- The impact termination of the plan will have on each investment option

Examples of the impact of plan termination:

- Tax consequences
- Market value adjustments
- Early withdrawal penalties or fees

Empire Life can assist the CAP Sponsor, CAP member and/or the financial advisor with any questions they may have regarding the terminating of a CAP.

Document the steps taken to ensure CAP members are provided information that is relevant in the event the CAP is terminated:

2. If a CAP member terminates from a plan the CAP Sponsor should provide the following information:

- Options available to the CAP member
- Any actions the CAP member must take
- Any deadlines for CAP member action
- Any default options that may be applied if no action is taken
- The impact that the termination of plan membership will have on each investment option

Examples of the impact of plan termination:

- Tax consequences
- Market value adjustments
- Early withdrawal penalties or fees

When a CAP member is terminated from a CAP, the financial advisor associated with the CAP can explain the various options available to that CAP member.

Should a CAP member die, this information will be provided to the CAP member's beneficiary or personal representative.

Document the steps taken to ensure terminated CAP members are provided information that is relevant in such cases:

The Empire Life Insurance Company (Empire Life) offers competitive individual and group life and health insurance, investment and retirement products to help you build wealth and protect your financial security.

Empire Life is among the top 10 life insurance companies in Canada¹ and is rated A (Excellent) by A.M. Best Company². Our vision is to be the leading, independently-owned, Canadian financial services company committed to simplicity, being easy to do business with and having a personal touch.

¹ Source: Office of the Superintendent of Financial Institutions (OSFI) and company annual reports, based on general and segregated fund assets

² As at June 29, 2012

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