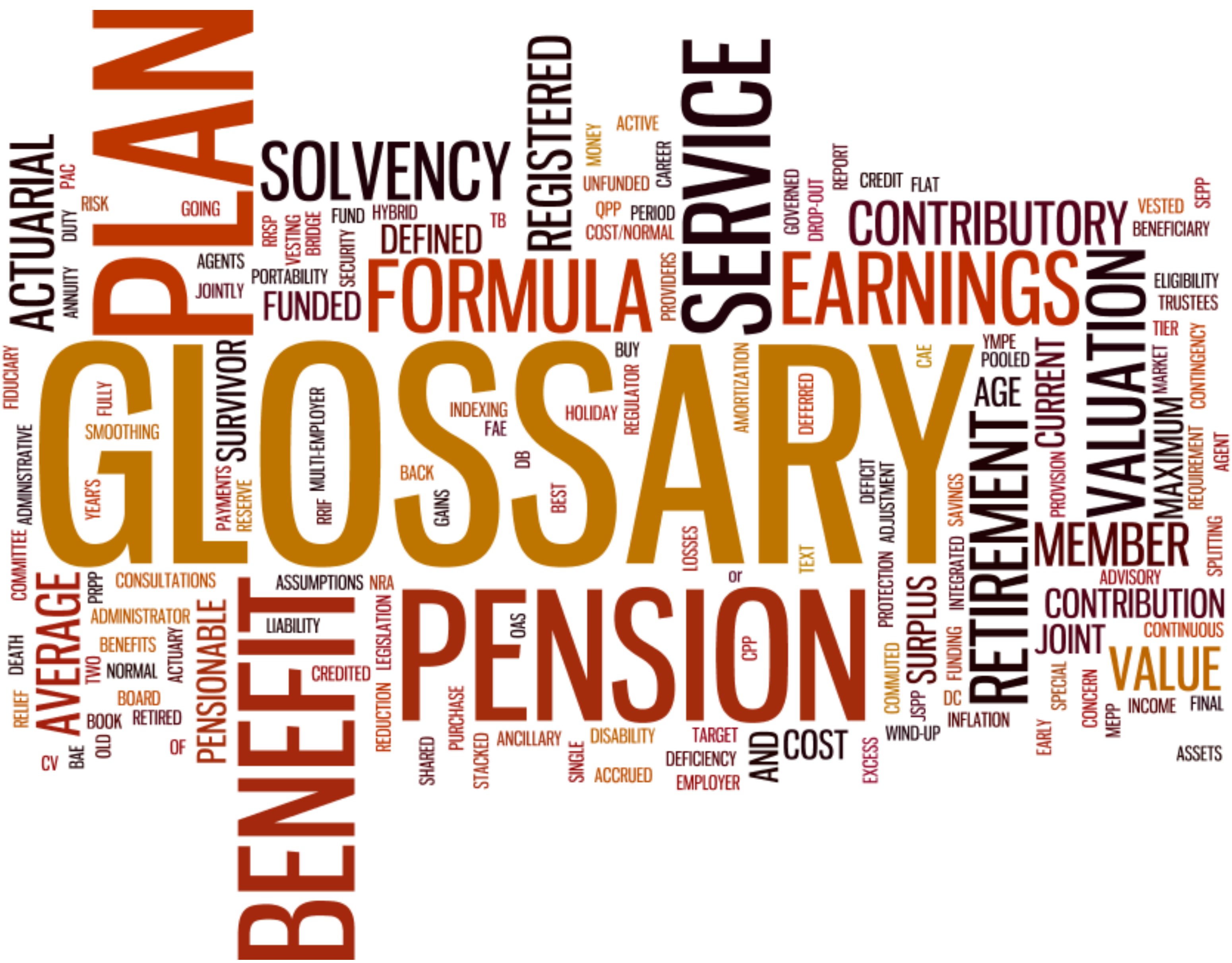
GLOSSARY OF PENSION TERMS

May 2022



ACCRUED PENSION: The amount of pension earned by the pension plan member, up to a certain date. Accrued pension includes all of the plan's features, for example, inflation protection.

ACTIVE MEMBER: A member of a pension plan who is still working and contributing to the pension plan.

ACTUARIAL ASSUMPTIONS: The estimates of factors that affect the cost of a pension plan and the value of assets that actuaries use to determine the amount of the plan's obligations to the members, as well as the amount of the plan assets. Actuarial assumptions, such as wage increases, return on investment, inflation, etc., are meant to reflect reality over the very long term, that is, 30 to 40 years.

ACTUARIAL REDUCTION (REDUCED PENSION): Sometimes on early retirement (before age 65), the plan member must take a reduction on her/his monthly lifetime pension. The size of this reduction is found in the pension plan text and employee booklet. As an example, the Canada Pension Plan (CPP) reduces the monthly lifetime pension by .5% per cent for each month under age 65 (or 6%/yr). By 2016, the reduction will be .6% for each month under age 65.

ACTUARIAL VALUATION: (ALSO KNOWN AS ACTUARIAL REPORT): A regular measure of a pension plan's funding (assets and liabilities), which must be produced at least once every three years. It is one of the most important documents of a defined benefit plan. It determines the level of contributions for the employer (and sometimes the plan members). It shows if there has been a contribution holiday. It shows if the plan has a surplus or deficit.

ACTUARY: An advisor who specializes in the calculation of the cost of pensions and their value, as well as the funded status of a pension plan, at a given point in time. The plan is required to have an actuary. The actuary is a member of the Canadian Institute of Actuaries and subject to their standards, as well as pension legislation.

AD HOC ADJUSTMENT: A benefit that is paid, without any prior or ongoing commitment or guarantee, e.g., inflation protection that is provided on an ad hoc basis rather than being guaranteed.

ADMINISTRATIVE AGENT: Responsible for day-to-day administration of the plan. This is different from the "Administrator" (see below).

ADMINISTRATOR: Responsible for the governance of the pension plan and pension fund – either a Board of Trustees or the employer. The administrator has duties to the members. An administrator is required under provincial and federal pension law.

AGENTS (SERVICE PROVIDERS): The service providers hired by the administrator to help operate and manage the plan and fund. Examples: Actuary, investment manager, administrative agent, auditor, lawyer, custodian.

AMORTIZATION PERIOD: A period of years during which extra "special payments" must be made to a pension plan. This happens when an actuary calculates that obligations of the plan are not fully paid for. Depending on the reason for the shortfall, there usually is either 5 or 15 years to pay off the debt.

ANCILLARY BENEFITS: The obligations of the pension plan, over and above the lifetime wage. For example: inflation protection, early retirement, disability retirement.

ANNUITY: A monthly pension wage paid from an insurance company or financial institution. Defined contribution (money purchase) pension plans require retirees to buy their pension wages at a financial institution.

ASSETS: The cash, investments and other property in a pension fund purchased from contributions and investment returns. Assets are shown on the balance sheet for financial and actuarial purposes. Assets can be calculated as market, book or actuarial value.

BENEFICIARY: An individual entitled to benefits under the pension plan. Examples: Active members, retirees and spouses.

BENEFIT: The wage paid from the pension plan.

Benefit formula: The formula for a defined benefit pension plan that describes the lifetime wage to be paid to members. There are three types of benefit formulas: flat, career average, and best/final average, for example, X% x earnings x years of service. The formula is found in the plan text.

Best average earnings (BAE) formula: The formula for calculating the retirement wage that uses the member's best average years of earnings, for example, an average of the best five years based on the best 60 consecutive months. See also "Final Average Earnings (FAE) Formula".

Book value: The value of an investment on the day the plan purchased it. The book value does not reflect any ups or downs in its value after the purchase date (see "Market Value").

Bridge: An early retirement benefit that pays additional benefits to retirees until they start collecting OAS and CPP/QPP.

Buy back: Many pension plans allow members to purchase or "buy back" months or years of service that they have worked without contributing to the pension plan. This service can then be counted toward the member's years in the pension plan.

Canada pension plan (CPP)/Quebec pension plan (QPP): The federal and Quebec pension plans for all workers in Canada and Quebec, regardless of their employer, province, or employment status, for example, full time, part-time or casual. The federal government and Quebec provides the day-to-day administration. Workers and employers make contributions to the CPP or the QPP.

Career average earnings (CAE) formula: A formula for calculating the retirement wage that is based on average earnings over the member's whole period of time in the pension plan. In some plans, there are periodic updates to a specified date.

Commuted value (CV): The present value of the retirement wage to be paid at retirement. The CV is calculated and used when members leave the plan, for example, when they change jobs.

Contingency reserve: A part of the contributions to the plan that are allocated to a special account to stabilize contribution rates from year to year.

CONTINUOUS SERVICE: The member's period of uninterrupted (or deemed uninterrupted) service with the employer. It is used to calculate pension benefits and to determine eligibility for early retirement under a defined benefit type pension plan.

CONTRIBUTION HOLIDAY: The employer (and sometimes the members of a plan) take a "holiday" from making their required contributions. Instead, the surplus in the pension fund is used ("drawn down") to pay, either in whole or in part, required contributions to the pension fund.

CONTRIBUTORY PLAN: A plan that requires members' contributions.

CREDIT SPLITTING: Allows a spouse, on divorce or breakup, to a share of pension credits earned by the other spouse during the marriage.

CREDITED SERVICE (CONTRIBUTORY SERVICE): In most defined benefit pension plans, the length of time (in months and years) that the member has contributed to, or is deemed to have contributed to, the pension plan.

CURRENT SERVICE COST (SOMETIMES CALLED "NORMAL COST"): The amount of money required to pay for one more year of service in the pension plan for all plan members. In other words, it is the price tag for the plan for the coming year. It can be shown in three different ways:

- A straight percentage of payroll;
- An employer percentage of employee contributions; or
- A dollar value.

In the valuation report, the actuary produces a table showing the total current service cost and, by subtracting the portion paid by employees' contributions, the amount required to be paid by employer contributions.

DEATH BENEFIT: The plan's obligations if the member dies.

DEFERRED VESTED MEMBER: When a member terminates employment before collecting a pension, but remains entitled to a pension from the plan.

Deficit (Also called "Unfunded Liability"): When the assets in the pension fund are not enough to cover the plan's obligations. Calculated by an actuary. An unfunded liability is not necessarily a cause for panic. Depending on the type of shortfall and whether or not legislated solvency relief measures are in place, it can typically be paid off over either 5 or 15 years. See "Solvency Relief".

Defined benefit plan (DB): The type of pension plan that CUPE and the labour movement advocates for members. The wage collected on retirement is guaranteed and defined by formula in the plan text. The member can predict his/her retirement wage before retirement. It is a collective approach to retirement wages.

Defined contribution plan (DC): (Also called "money purchase" plan) A pension plan that employers favour. Their only obligation is to pay a defined level of contributions to each member's pension account, not to guarantee a certain level of benefits. It is an individual approach to retirement wages.

Disability pension: A retirement wage paid to members who retire due to disability.

Drop-out provision: The Quebec and Canada Pension Plans allow some time during a worker's contributory period to be ignored when calculating the benefit. This means these periods of low or no income, as well as periods of receiving CPP/QPP disability, won't reduce the CPP/QPP retirement benefit. There is also a child-rearing drop-out provision.

Early retirement: Pension laws require that registered pension plans allow for retirement at least 10 years prior to "normal retirement" (see "Normal Retirement Age"). This is a minimum requirement. Generally, early retirement means retirement before age 65.

Eligibility requirement: Any condition, such as age or length of service that must be met before a worker can, or is required to, join a pension plan. Eligibility may be different for full and part-time members.

Excess surplus: The level of surplus (described in the Income Tax Act) at which the employer is required to stop making contributions to the pension fund. This is triggered by the filing of a valuation report showing excess surplus.

FIDUCIARY DUTY: The duty those responsible for the pension plan and fund have to the plan members. Fiduciary duty requires them to:

- Act prudently
- Act with due diligence
- Act in the members' best interests – not their own
- Act personally – not delegate duty
- Avoid conflict of interest
- Accept the standard of care that is expected from their skill and knowledge

FINAL AVERAGE EARNINGS (FAE) FORMULA: The formula for calculating the retirement wage that uses the member's final average years of earnings, for example, an average of the last five years. See also "Best Average Earnings (BAE) Formula".

FLAT BENEFIT FORMULA: The pension is based on a specific dollar amount per month or year of service.

FULL PENSION: When a member retires with no reduction to her/his lifetime retirement wage. This is not to be confused with having 35 years credited (pensionable) service.

FUNDED (OR FULLY FUNDED): When the pension fund's assets are sufficient to meet the pension plan's obligations.

FUNDING (CURRENT SERVICE COST/NORMAL COST): The amount of money necessary to keep the pension plan solvent or "fully funded". The actuary determines how much money is necessary to fund the plan. Sometimes "special payments" are necessary, over and above the required contribution, to pay unfunded liabilities.

GAINS AND LOSSES: (Sometimes called "reconciliation") A table or chart comparing each assumption from the previous valuation against actual events. For example, if the wage assumption for the last valuation was 4½% but actual wage increases were only 2½%, than the plan would have a gain, because the plan's obligations were not as high as expected. On the other hand, if more people retired than assumed, this would be a loss for the plan because it had to pay more pensioners than it had anticipated.

GOING CONCERN VALUATION: (Also called "funding valuation") The valuation that assumes that the pension plan will continue into the future. The reason for the going concern valuation is to assure the regulator that the plan is fully funded --or if not, how it will be fully funded in the future. It also shows the amount of the surplus or deficit. The going concern valuation sets the annual contribution requirements for the employer.

HYBRID PLAN: A plan that has a defined benefit component and a defined contribution component.

INDEXING (INFLATION PROTECTION): The provision in a pension plan that increases pension wages to keep up with all or a part of the increase in the cost of living/inflation. This is how retirees get needed Increases in their pension benefits throughout their retirement. CPP/QPP, OAS and some workplace pensions are indexed.

INTEGRATED PLAN: A defined benefit pension plan where the pension formula and worker contributions to the workplace pension plan takes into account the pension benefit paid by, and contributions made to, the CPP/QPP. Different from a "stacked plan".

JOINT AND SURVIVOR BENEFIT: Pension law requires that when a plan member dies, her/his spouse will receive a pension benefit.

JOINT BOARD OF TRUSTEES: A Board that governs a pension plan. Usually a joint Board of Trustees has an equal number of employer and union representatives.

JOINTLY GOVERNED PENSION PLAN: A plan with a Joint Board of Trustees.

JOINTLY SPONSORED PENSION PLAN (JSPP): A plan in which the employer and the members share liability for funding shortfalls and decision making about the plan design and use of surplus.

MARKET VALUE: The value of a plan's assets on the date of a valuation report or financial report.

MAXIMUM PENSION: The Income Tax Act (ITA), (which sets maximum pension standards), sets the maximum pension payable from a registered pension plan. Most CUPE members are not directly affected by this feature of the ITA since it applies to higher wages. Plan members who hit the maximum often have other arrangements to top up their pension that are not payable under the registered part of the plan.

MONEY PURCHASE PLAN: See "Defined Contribution Plan".

MULTI-EMPLOYER PENSION PLAN (MEPP): A pension plan that more than one employer participates in. MEPPs are common in the public sector and the trades. There are provisions in pension law for MEPPs that differ from those for single employer defined benefit plans.

NON-CONTRIBUTORY PLAN: A pension plan in which all contributions are made by the employer.

NORMAL RETIREMENT AGE (NRA): Every pension plan specifies a normal retirement age so that the actuary can calculate the plan's obligations. Generally, normal retirement age is 65.

OLD AGE SECURITY (OAS): The federal pension for all citizens. Those with 40 years residency receive the full amount. Seniors with less than 40 years residency receive a pro-rated amount. The Guaranteed Income Supplement (GIS) is part of the OAS. The GIS pays a supplement to Canada's poorest seniors.

PENSION: The deferred wage paid to retirees.

PENSION ADVISORY COMMITTEE (PAC): A group of individuals usually named by the employer. This is not the administrator, which has responsibilities and duties to the plan members. Many pension laws allow for such an advisory body.

PENSION BENEFITS LEGISLATION: Federal and provincial jurisdictions have legislation that establishes the minimum standards for pension plans. PEI is the only jurisdiction that does not have such legislation.

PENSION CONSULTATIONS: Federal and provincial governments occasionally hold consultations about pension law and/or the Quebec or Canada Pension Plan. Consultations happen if the government is considering amending pension law.

PENSION PLAN: A contract that sets out the details of the plan members' rights and entitlements to a pension benefit.

PENSIONABLE EARNINGS: The part of a member's wage that is used to calculate her/his required pension contributions. It is also used in the defined benefit formula for calculating the pension benefit.

PLAN TEXT: A legal document required for every registered pension plan. It must be filed with pension regulatory authorities.

POOLED REGISTERED PENSION PLAN (PRPP): A scheme introduced in 2012 under the Harper government which is basically a pooled retirement savings plan. It's run by insurance companies and financial institutions. Employers are not required to offer a plan or contribute and there is no guaranteed benefit on retirement. The Harper government introduced this plan instead of expanding the CPP.

PORTABILITY: The right to transfer pension between employers. Pension law sets out minimum portability provisions.

REGISTERED RETIREMENT INCOME FUND (RRIF): An investment permitted under the Income Tax Act for pension money that will be converted to a monthly income upon retirement.

REGISTERED RETIREMENT SAVINGS PLAN (RRSP): A personal savings plan defined in the Income Tax Act. Tax is deferred on contributions made to the RRSP until it is converted to an income or withdrawn. In some workplaces, employers set up a group RRSP instead of a pension plan.

REGULATOR: The government body, usually associated with the Ministry of Finance, which oversees pension funds. In some provinces, the regulator is called the Superintendent of Pensions.

RETIRED MEMBER: A member of a pension plan who is collecting retirement benefits.

"SHARED RISK" PENSION PLAN: A type of target benefit pension plan (see "Target Benefit Pension Plan") that allows for the full retroactive conversion of past defined benefit promises into legally reducible target benefits. New Brunswick was the first jurisdiction to make conversions like this legal. The name is misleading, because plan members (actives and retirees) bear significantly more risk than employers in this model.

SINGLE EMPLOYER PENSION PLAN (SEPP): A pension plan for the employees of a single employer.

SMOOTHING: A calculation that uses averaging over several years (typically five years), instead of current market value of assets, and/or liabilities.

SOLVENCY: A pension plan is solvent when it could meet all of its obligations if it was wound up or terminated. Actuaries test for solvency.

SOLVENCY DEFICIENCY: A solvency valuation shows that – in the case of the plan ending at the valuation date – assets would not cover benefits. In most provinces the law requires that a solvency deficiency be paid off by "special payments" over five years. Most recently many provinces are providing "Solvency Relief" particularly for public sector plans.

SOLVENCY RELIEF: Changes in legislation to allow pension funds more flexible arrangements for paying down solvency deficiencies.

SOLVENCY VALUATION: The solvency valuation shows the regulator what would happen if the plan was wound up. It assumes that the plan will be terminated as of the valuation date and that no further benefits will accrue under the plan. The assumptions used for calculating the solvency valuation are different than those for the going concern valuation. Sometimes actuaries also calculate a "wind-up valuation". When there are both solvency and wind-up valuations calculated it is usually to avoid a deficiency that would require special payments.

SPECIAL PAYMENTS: Temporary, additional payments, required by law, to make up a shortfall in pension plan funding.

STACKED PLAN: A defined benefit pension plan where the pension formula and worker contributions to the workplace pension plan are in addition to, and separate from, the pension benefit paid by, and contributions made to, the CPP/QPP. Different from an "integrated plan".

SURPLUS: The assets in the pension fund are more than the plan's obligations. Calculated by an actuary.

SURVIVOR BENEFIT: A pension payable to the surviving spouse or eligible dependent child when a plan member dies.

TARGET BENEFIT PENSION PLAN (TB): A pension plan with fixed or inflexible contribution rates (often rates are subject to a hard cap) and variable and reducible benefits. As a result, with a Target Benefit Pension Plan, if there is not enough money in the plan to pay the promised benefits and a contribution cap or limit is hit, then it is possible to reduce pensions, both for future and past service (including, in some cases, benefits already being paid to retirees).

TWO TIER PENSION PLAN: A pension plan in which one group of workers – typically, new hires – are only eligible for inferior pension benefits.

UNFUNDED LIABILITY: See "Deficit".

VALUATION REPORT: See "Actuarial Valuation".

VESTING: The legal right of a plan member to receive a pension benefit.

WIND-UP: The termination of a pension plan. Plans may be wound up by their sponsors voluntarily, or involuntarily in the event of bankruptcy. The procedures covering terminated plans are regulated by pension law.

WORKPLACE PENSION: The pension plan at a workplace. Some plans are "single employer" plans while others are "multi-employer" plans.

YEAR'S MAXIMUM PENSIONABLE EARNINGS (YMPE): A CPP/QPP term setting out the maximum annual earnings on which CPP/QPP contributions are paid and benefits are calculated. The YMPE is changed every January 1st to reflect the average industrial wage (AIW).

OTHER TERMS USED IN YOUR PLAN:

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