

Nonprofit Pensions Task Force
GLOSSARY
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See also: <http://www.cra-arc.gc.ca/tx/rgstrd/pblctns/glssry-eng.html>

ACCRUAL RATE

The rate at which pension benefit is built up as pensionable service is completed in a defined benefit scheme. Often expressed as a fraction of pensionable salary, e.g., 1/60th (or 1.67%) for each year of service or a percentage, as in “DB plans in Ontario must meet a minimum benefit accrual rate of 0.50 per cent” to be considered comparable to the ORPP (true statement). Over 36 years, a **1.33%** formula produces a pension of 48% of final average earnings. An accrual rate will usually be part of the formula used in a final salary scheme or a career average earnings scheme (both are **types** of defined benefit scheme).

The threshold established for DB plans to be exempt from the ORPP is extremely low at 1/200th pensionable salary - this means a person would receive only 20% of their pensionable earnings (between \$3500 and \$90,000 each year) after 40 years. This makes sense since the ORPP only aims to replace 15% of pre-retirement income earnings after 40 years.

ACCRUED BENEFITS

The benefits for service up to a particular point in time, whether vested rights or not. These benefits may be calculated in relation to current earnings or projected earnings and allowance might also be made for any increases provided for by the scheme rules or by legislation.

ACTIVE MEMBER

A pension plan member who is making contributions (and/or on behalf of whom contributions are being made) and is accumulating assets. (Plan member)

ACTUARY

In the pension area, a professional who is responsible for calculating the liabilities of pension plans and the costs of providing pension plan benefits. Under the **PBSA**, all actuarial reports must be prepared by a person who is a Fellow of the Canadian Institute of Actuaries.

ACTUARIAL ASSUMPTIONS

The various estimates (including assumptions related to changes in longevity, wage, inflation, returns on assets, etc.) that the actuary makes in formulating the actuarial valuation.

ACTUARIAL VALUATION

A valuation carried out by an actuary on a regular basis, in particular to test future funding or current solvency of the value of the pension fund's assets with its liabilities.

ANNUITY

A contract purchased from an insurance company to provide periodic (usually monthly) payments to a person for his or her lifetime.

BRIDGE BENEFIT

A bridge benefit usually provides income from the date a pension plan member takes early retirement to the date when the member is entitled to receive Canada Pension Plan (CPP) or Quebec Pension Plan (QPP) retirement benefits and/or Old Age Security benefits.

BUYBACK

Pension buyback or service buyback is a provision allowed in some pension plans whereby an individual can “purchase” additional years’ service (equivalent to retroactive pension contributions). For instance, a public service worker who had spent two four-month periods as a student employee at that workplace can “purchase” pension credits for those summers with a cash payment into the plan when they began a full-time job after graduating. That would allow the employee to retire eight months earlier than otherwise with full pension.

Teachers’ has a great [webpage](#) on Buyback info.

CAREER AVERAGE SCHEME (vs. FLAT BENEFIT vs. FINAL AVERAGE EARNINGS)

This formula is based on your average earnings in the years leading up to retirement (for example, in the 5 years before retirement). The averaging effect means this type of scheme generally produces smaller pension incomes, particularly for those who get big salary increases towards the end of their career.

CAPITAL ACCUMULATION PLAN (CAP)

A tax-assisted investment or savings plan that permits members to make investment decisions among two or more options offered within a plan. A CAP may include a defined contribution registered pension plan; a group registered retirement savings plan or registered education savings plan; or a deferred profit-sharing plan.

COMMUTED VALUE

The amount of an immediate lump-sum payment estimated to be equal in value to a future series of payments. The value is based on current market conditions and other assumptions prescribed by the Canadian Institute of Actuaries.

CONDITIONAL INDEXING

Indexation (or protection against inflation) is applied to benefits only when the pension fund’s assets are over a given threshold.

CONTINUOUS SERVICE

The period during which an employee is continuously employed by the same employer.

Continuous service may be defined in the pension plan (or by law) to include certain periods of absence and/or of service with an associated or former employer.

CONTRIBUTION HOLIDAY

A period when the contributions to a pension scheme are put on hold, the most common reason for this being a situation of overfunding.

DEFERRED PENSION

A specified pension determined when a member's employment or plan terminates that is not payable until sometime later, usually at retirement.

DEFINED BENEFIT (DB) PLAN

A DB pension plan aims to provide you with a lifetime retirement income. You can know in advance how much income you will receive after you retire (until death) based on a formula that takes into account how long you have been contributing and how much you earned over the years. Employers and workers contribute a set percentage of salary. Funds are invested by a professional. The risk of unfunded liabilities is shared across a group of members (or even multiple workplaces) so that no one runs the risk of outliving their savings. In most DB plans, employers shoulder the investment risk but a "member-funded" plan spreads the risk among workers instead while employer contributions are fixed.

- In a traditional DB plan, an employer (or group of employers) bears the risk of unfunded liabilities, while the workers' contributions are fixed.
- In a member-funded DB plan, the workers (collectively) bear the risk, while the employers' contributions are fixed.

DEFINED CONTRIBUTION (DC) PLAN

A defined contribution (DC) pension plan helps individuals accumulate retirement savings during their career. Employers and workers contribute a set percentage of their salaries. Funds are put in a personal account for each worker. The benefit the worker will receive on retirement is determined at the date of retirement and is based on accumulated contributions and investment income, as well as annuity rates. The cost of a DC plan to employers and workers can be known in advance, and risks are borne by individual workers instead of employers -- there is no guaranteed benefit, so there is no unfunded liability. (Also called a **money purchase plan**.)

FINAL AVERAGE EARNINGS/FINAL SALARY SCHEME

The pension paid to members is based on their salary at the point of retirement, the number of years they have belonged to the scheme and the accrual rate. It particularly benefits employees who salaries rise steeply towards the end of their careers.

FLAT BENEFIT/FLAT RATE (DB) SCHEME

A type of defined benefit scheme, whereby the pension benefit is only based on the length of membership in the scheme and is not affected by earnings.

FUNDING RATIO

The ratio of pension plan assets to pension plan liabilities as determined by the latest actuarial valuation. The funded ratio equals 100% when the value of the pension plan's assets and liabilities are equal. Can be measured on either a "solvency" or "going concern" basis.

GOING-CONCERN VALUATION

An actuarial report valuing the assets of the pension plan and the expected cost of the promised benefits based on the assumption that the plan is continuing.

GUARANTEED PENSION

A pension that will be paid to a person for his or her lifetime, with a minimum number of payments guaranteed. For example, if the plan member opts for a five-year guarantee but dies after three years, payment will continue to the survivor or the estate for two more years.

HOOPP

Healthcare Of Ontario Pension Plan. The pension plan of hospital (and some community-based health care) workers in Ontario.

HYBRID DB PENSION PLAN

A DB plan where benefits depend on a rate of return credited to contributions, where this rate of return is either specified in the plan rules, independently of the actual return on any supporting assets (e.g. fixed, indexed to a market benchmark, tied to salary or profit growth, etc.), or is calculated with reference to the actual return of any supporting assets and a minimum return guarantee specified in the plan rules.

JOINT AND SURVIVOR PENSION

A pension payable for the lifetimes of both the plan member and his or her spouse or **common-law partner**. This is required to be provided as an option when a member retires. Under the **PBSA**, payments to the **survivor** may be reduced by a maximum of 40% after the member's death, but a plan may provide other options.

LIFE INCOME FUND (LIF)

A personal retirement income fund offered by financial institutions. Similar to a **Registered Retirement Income Fund (RRIF)**. A LIF can be purchased with pension funds when a member leaves or retires. A federal LIF is used to provide a regular retirement income, and is subject to minimum and maximum withdrawal limits. LIFs are governed by the **PBSA** and the federal *Income Tax Act*. See also **Restricted Life Income Fund (RLIF)**.

LOCKED-IN REGISTERED RETIREMENT SAVINGS PLAN

A personal retirement savings account offered by financial institutions. It is similar to a **Registered Retirement Savings Plan (RRSP)**, except that the funds are locked in. A locked-in **RRSP** is used to hold money that is transferred out of a pension fund on termination of employment. **Locked-in RRSPs** are governed by the **PBSA** and the federal *Income Tax Act*. See also **Restricted Locked-in Registered Retirement Savings Plan (RLSP)**.

LOCKING IN

A legislative requirement whereby pension benefits cannot be used for any purpose other than to provide a retirement pension. This means the funds will be there for you when you retire and creditors cannot access them. Only under exceptional circumstances (e.g., a medical condition expected to shorten your life, or severe financial hardship) can you access these funds early. Most RRSPs are not locked-in so you can cash them out (usually paying tax on them) if you need the funds -- but then they're not there when you retire.

MEANS-TESTING

A process to determine how much income (or wealth) a person has to decide whether they are eligible for a given public program. E.g., seniors whose income is over a certain threshold do not receive the Guaranteed Income Supplement (GIS) because it is a means-tested program.

MEMBER-FUNDED PENSION PLAN

A member-funded pension plan (MFPP) is a type of defined benefit pension plan permitted by Quebec's Supplemental Pension Plans Act. The Quebec nonprofit sector plan is a MFPP. In an MFPP, the employer contributions are fixed at a pre-determined rate -- so there is no risk to employers of having to pay more if the plan is underfunded; this risk is borne by members as a collective. The member contributions to the plan may vary, depending on the rate of return the plan fund receives. An MFPP essentially reverses the funding roles of the employer and the plan members from those in a traditional defined benefit plan.

MER

Management Expense Ratio. Expressed as a percentage of the fund's total assets. MER includes the management fee plus the fund's day-to-day operating expenses, such as record keeping, fund valuation costs, audit and legal fees, costs for sending out prospectuses and annual reports, and HST. (MER does not include a commission -- known as a "front-end load" or "back-end load" -- paid to the advisor's firm for selling a mutual fund.)

MIXED DB PLAN

DB plan that has two separate DB and DC components but which are treated as part of the same plan.

MSP

Multi-Sector Pension Plan. A target-benefit multi-employer pension plan for nonprofit workplaces in Ontario organized by CUPE and SEIU.

NET RATE OF RETURN

The rate of return of an asset or portfolio over a specified time period, after discounting any fees or commissions.

OMERS

Ontario Municipal Employees' Retirement System. Pension plan for city workers across Ontario.

OP Trust

OPSEU Pension Trust. Pension plan for the Ontario public service and some other public service employers.

PENSION ADJUSTMENT (PA)

The estimated value of a member's pension benefits accruing in a particular year as determined under the *Income Tax Act*. For **defined benefit plans**, the **PA** is determined by a formula. For **defined contribution plans**, the **PA** is the total of all employer and employee contributions for the year. A person's **RRSP** contribution room is reduced by the value of the previous year's **PA**.

PENSION BENEFITS STANDARDS ACT, 1985 (PBSA)

The legislation regulating **private pension plans** of employees employed in areas of **included employment** in Canada. It sets out minimum standards for funding the plan, member benefits, administration, information to members, and investments.

PENSION BENEFITS STANDARDS REGULATIONS, 1985 (Regulations)

Regulations that support the **PBSA** and provide additional specifications.

PENSION FUND GOVERNANCE

The operation and oversight of a pension fund. The governing body is responsible for administration, but may employ other specialists, such as actuaries, custodians, consultants, asset managers and advisers to carry out specific operational tasks or to advise the plan administration or governing body.

PENSION PLAN SPONSOR

An institution (e.g. company, industry/employment association) that designs, negotiates, and normally helps to administer an occupational pension plan for its employees or members.

PENSION LIABILITIES

The expected cost of the promised benefits based on actuarial assumptions such as future salary levels, investment returns, when members will retire, when they will die, etc.

PENSIONABLE AGE

The age (specified in the plan text) at which members are entitled to a pension that is not reduced because of early retirement. It can be a specific age or number of years of service, or a combination of both.

PLAN TERMINATION

Discontinuation of all or part of a pension plan by the employer. This often results from bankruptcy of the employer or from corporate restructuring or downsizing.

PLAN WIND-UP

Distribution of the benefits and assets of a pension plan that has been terminated.

PORTABILITY / TRANSFER OPTIONS

The options available on cessation of membership, death, marriage breakdown, or **plan termination**. Members can transfer the **commuted value** of accumulated pension benefits to a **locked-in RRSP**, a **LIF**, a **RLIF**, another pension plan (if agreed to by the new plan), or the **commuted value** can be used to purchase an immediate or deferred **annuity**. A member can forego these options and instead receive a **deferred pension** from the plan at retirement.

PROJECTED BENEFIT OBLIGATION

The actuarial present value of vested and non-vested benefits attributed to the plan through

the pension benefit formula for service rendered to that date based on employees' future salary levels.

“QUEBEC MODEL”

See Regime de Retraite (below).

REGIME DE RETRAITE DES GROUPES COMMUNAUTAIRES ET DE FEMMES

Pension plan for nonprofit and social economy workplaces in Quebec. A member-funded pension plan that provides a defined benefit but puts the investment risk on workers collectively-- rather than employers like most DB plans do. [English website](#).

REGISTERED RETIREMENT INCOME FUND (RRIF)

A personal retirement income fund offered by financial institutions. An RRIF is used to provide an ongoing minimum flow of income. **RRIFs** are governed by the *Income Tax Act* which determines minimum withdrawal amounts. **Locked-in pension benefits from federally registered pension plans cannot be transferred to an RRIF** because an RRIF is not a locked-in retirement savings arrangement.

REGISTERED RETIREMENT SAVINGS PLAN (RRSP)

A personal retirement savings account offered by financial institutions. **RRSPs** are governed by the *Income Tax Act* which sets the maximum amount of RRSP contributions that can be deducted from an individual's taxable income.

REPLACEMENT RATE

The ratio of an individual's (or a given population's) (average) pension in a given time period and the (average) income in a given time period.

RESTRICTED LIFE INCOME FUND (RLIF)

Similar to a **Life Income Fund (LIF)**, however, an **RLIF** annuitant may on a one time basis unlock 50% of the funds.

SOLVENCY LIABILITIES

The expected cost of the promised pension benefits based on the assumption that the plan is terminating.

SOLVENCY RATIO

The ratio of the assets of the plan to the **solvency liabilities** of the plan.

SOLVENCY VALUATION

An actuarial report valuing the assets of the plan and the expected cost of the promised benefits based on the assumption that the plan is terminating.

SOMEPP

Specified Ontario multi-employer pension plan. A set of MEPPs whose sponsors, since 2007, have been exempt from special payments for solvency deficiencies (shortfalls).

SPECIAL PAYMENTS

Under [Ontario Regulation 909](#) of the Pension Benefits Act, certain plans that have fallen into deficit must make special payments to make up the shortfall. Certain multi-employer pension plans have been exempted from this requirement on some conditions.

SPONSOR

See Pension Plan Sponsor.

SURPLUS

In **defined benefit plans**, the amount by which the assets of a pension plan exceed the expected cost of the promised benefits (**pension liabilities**).

TARGET BENEFIT PLAN

A TB plan pools assets (and therefore longevity risk) but market risk is borne to some degree by individual plan members. Accrued benefits are subject to reduction if the funding level falls below a given threshold. To avoid a reduction, TBPs are governed by more formal funding and benefit policies than one typically finds in defined benefit plans. In addition, conservative assumptions can be used in the setting of the target benefit with benefit improvements granted only if there is a significant funding surplus. This more conservative approach means less generous benefit payouts than in a comparable DB plan.

TEACHERS'

Ontario Teachers' Pension Plan.

THIRD PARTY ADMINISTRATOR

An entity other than a plan sponsor, that is responsible for administering an occupational pension plan.

UNDERFUNDING

The situation when the value of a plan's assets are less than its liabilities, thereby having an actuarial deficiency.

VESTED BENEFITS (VESTING)

Benefits to which an employee is entitled upon cessation of membership under a pension plan by satisfying age and/or service requirements. Usually involves locking in of accumulated benefits.

If you leave an employer before your pension is "vested," you are not entitled to benefits under the plan, except for a refund of any contributions you made, plus interest or investment income (you are not entitled to any contributions your employer made). Often this milestone is after two years of employment.

WINDING UP / TERMINATION

The termination of a pension scheme by either providing (deferred) annuities for all members

or by moving all its assets and liabilities into another scheme.

YEAR'S MAXIMUM PENSIONABLE EARNINGS (YMPE)

The earnings on which Canada Pension Plan / Quebec Pension Plan contributions and benefits are calculated. The YMPE changes each year according to a formula using average wage levels. The YMPE is set annually by the Canada Revenue Agency and is available on the CRA Web site at <http://www.cra-arc.gc.ca/>.