

GLOSSARY OF TERMS (PENSIONS)

Accrual rate	The rate at which pension benefit is built up as pensionable service in a defined benefit scheme. Often expressed as a fraction or percentage of pensionable salary, e.g., 1/60th (or 1.67 percent) for each year of service. Over 36 years, a 1.33 percent formula produces a pension of 48 percent of final average earnings. The lower the bottom number (or the bigger the percentage), the better the pension benefit you will have received for an equivalent amount of pensionable service. 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).
Annuity	A contract purchased from an insurance company to provide periodic (usually monthly) payments to a person for their 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.
Canada Pension Plan (CPP)	The CPP is a publicly run defined benefit pension plan (mirrored by the Quebec Pension Plan) that provides a monthly benefit to retired workers (there are also death and disability provisions), based on how much the worker and their employer(s) have contributed during their working life, with provisions for employment gaps/reductions caused by disability and for parents who take time out of the workforce for child-rearing. The CPP underwent funding changes in the 1990s and is now projected by the CPP Investment Board to be <u>sustainable</u> for at least the next 75 years.
<u>CPP Enhancement</u>	Starting in 2019, the CPP will be gradually enhanced, meaning employees (and their employers) from that point on will make higher contributions and can expect higher benefits when they retire. Over time, the CPP will grow to replace about one third of a worker's average earnings. The maximum limit used to determine pensionable earnings will also gradually increase by 14 percent by 2025. A worker's pension will increase based on how much and for how long they contribute to the enhanced CPP. A person will get the full increase if they contribute to the enhanced CPP for 40 years -- in other words, the enhanced CPP will make the most difference to those entering the workforce in 2019 or later.
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.

<p>Career Average Scheme (Benefit Formula)</p>	<p>This benefit formula is usually based on your average annual earnings over the entire period of time you have been a member of your employer's pension plan, multiplied by the number of years you have been a plan member. (For contrast, see "final average earnings" and "flat rate" formulas below.)</p>
<p>Conditional indexing</p>	<p>Indexation (or protection against inflation) is applied to benefits only when the pension fund's assets are over a given threshold.</p>
<p>Decumulation</p>	<p>Decumulation is the process of converting an accumulated pot of savings (e.g., in a defined contribution plan, RRSP, or TFSA) into a stream of income that will last for a retiree's lifetime. Factors to consider include lifestyle, health, longevity, access to lump sums, inflation protection, and of course how much accumulated savings you begin with. (Decumulation is not an issue for defined benefit pension plans, as these plans are professionally managed to produce a lifelong monthly income for retirees.) Options include annuities (an insurance product), life income funds (LIFs), and registered retirement income funds (RRIFs). In some countries, such as Australia, UK, and the USA, more options are available to help retirees with group options, lower-cost options, and more straightforward decision-making.</p>
<p>Defined benefit pension plan</p>	<p>A defined benefit (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 a traditional DB plan, an employer (or group of employers) bears the risk of unfunded liabilities, while the workers' contributions are fixed.</p>
<p>Defined contribution pension plan</p>	<p>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.)</p>
<p>Environmental, Social & Governance factors/</p>	<p>Responsible investment is an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable, long-term returns.</p>

Responsible Investment	
Final Average Earnings (Benefit Formula)	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 Rate (Benefit Formula)	This benefit formula is normally based on a set or "flat" dollar amount for each year (or month or number of hours) of employment or service. Your individual earnings are not taken into account.
Guaranteed Income Supplement	Guaranteed Income Supplement provides a monthly non-taxable benefit to Old Age Security (OAS) pension recipients who have a low income and are living in Canada.
Jointly Sponsored Pension Plan (JSPP)	A JSPP is a contributory defined benefit pension plan in which the employer(s) and the members share responsibility for the plan's governance and funding. A JSPP can be sponsored in a multi-employer arrangement or a single employer arrangement. If there is a funding shortfall, both the employer(s) and members are responsible for funding up to half the shortfall. The employer(s) and the members are jointly responsible for the governance of the pension plan, including all decisions about the terms and conditions of the plan, any amendments to the plan, and the appointment of the administrator of the plan.
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.
Longevity risk	The risk that a person's life will extend beyond average life expectancy. The length of a person's life will have a significant influence on how long they can potentially sustain income. In a DC plan or RRSP arrangement, longevity risk is borne by an individual, whereas in a DB pension plan, it is pooled (shared) across a workplace or workforce so that any particular individual need not be concerned about outliving their savings.
Management Expense Ratio (MER)	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.)
Old Age Security <u>OAS</u>	OAS is the Government of Canada's largest pension program. It is funded out of the general revenues, which means that you do not pay into it directly. OAS is a monthly payment available to seniors aged 65 and older who meet the Canadian legal status and residence requirements.
Past service buyback	Pension buyback or past 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.
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.
Registered Retirement Savings Plans (RRSPs)	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.
Target Benefit (TB) Pension 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, TB plans 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.
Tax-Free Savings Account	The Government of Canada’s Tax-Free Savings Account (TFSA) program offers Canadians a way to save tax-free throughout their lifetime. Contributions to a TFSA are not deductible for income tax purposes, i.e., contributions are made with after-tax income (unlike with RRSPs). Any amount contributed as well as any

	income earned in the account (for example, investment income and capital gains) is generally tax-free, even when it is withdrawn.
Year's Maximum Pensionable Earnings (YMPE)	The earnings (\$55,900 in 2018) 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.