

Glossary of Common Pension Terms

Accrued pension benefits – the amount of monthly pension benefits earned up to a given date. This amount is determined by a formula that typically incorporates the employee's pay and years of service

Administrator (or fiduciary) – the body responsible for managing the day-to-day operations of the pension plan, including collecting contributions, investing plan assets, and interpreting the provisions of the plan documents

Asset mix – the percentage of the portfolio invested in different asset types (fixed income investments, Canadian equity, international equity, real estate properties, infrastructure projects, etc.)

Bridge benefit – this is a temporary supplemental monthly payment, paid to a pension plan member who retires before the age of 65 from the time of retirement until they reach 65

CAAT – Colleges of Applied Arts and Technology Pension Plan:
<https://www.caatpension.on.ca/en>

Commuted value (also called transfer value or lump sum value) – the current value (calculated by an actuarial formula) of future anticipated pension payments. This is used when someone is leaving a pension plan and the plan gives him or her a lump sum payment that is equal to the amount they would need to invest in order to obtain the promised pension benefits

Contribution rate – the amount that an employee and an employer respectively put into the plan. This is usually expressed as a percentage of income

Canada Pension Plan (CPP) – a statutory pension plan in which all working Canadians are required to participate. The CPP provides a monthly benefit to eligible Canadians, normally beginning at age 65; the benefit is calculated based on age and how much he or she contributed to the CPP

Deferred pension – when a person terminates participation in a pension plan and is below the age in which the pension can start, the payment of a pension is postponed until the member reaches retirement age

Defined benefit plan – the benefit payable from the defined benefit plan is defined by a formula typically based on earnings and the number of pensionable years of service. The amount of pension is guaranteed by the employer and cannot be reduced

Defined contribution plan – the benefit provided from a defined contribution plan is a lump sum amount. Contributions into the pension plan are defined (not the benefit) and accumulate with investment income in an ‘account’ specifically for their retirement

Discount rate – the rate used to determine the current value of pension benefits. The rate is determined based on anticipated returns on plan investments; typically a provision for administrative expenses is incorporated (by way of reducing the discount rate) as well as a margin for adverse experience

Fiduciary – a relationship of trust where one person (the fiduciary) holds and/or controls property for the benefit of another person. For example, the relationships between a trustee and the beneficiaries of a pension plan

Financial Services Commission of Ontario (FSCO) – the government body that regulates the insurance sector, pension plans, trust companies, and credit unions in Ontario

Fully funded – a plan that has sufficient assets to provide for all accrued benefits

Future service benefits – pension benefits to be credited for years of service after a given date

Going concern valuation – the value of plan assets and liabilities assuming that the plan will continue to operate indefinitely; in Ontario, deficiencies must be paid back over fifteen years

HOOPP – Healthcare of Ontario Pension Plan: <http://hoopp.com>

Hybrid Plan – in the university sector, defined contribution plan with a minimum pension based on a defined benefit formula

Indexation – periodic cost of living adjustments to pension benefits (based on CPI), usually occurring post-retirement

Jointly Sponsored Pension Plan (JSPP) – a defined benefit pension plan that is governed by both the employees and employers. Costs for the pension plan are also shared between employees and employers (including surpluses and deficits). Benefits cannot be reduced, except possibly in the event that the pension plan terminates

Margin for Adverse Experience (also called a Provision for Adverse Deviation) – a pension plan funding mechanism designed to enhance benefit security for plan members and contributing to stable contributions and/or benefit levels over time

Multi-employer pension plan (MEPP) – a pension plan that involves two or more employers contributing to the plan, and potentially more than one collective agreement for employees in the plan. Often MEPPs occur in industries where people could work for more than one employer in the plan over a lifetime (professional sports, construction, education etc.)

OMERS – Ontario Municipal Employees Retirement System: <http://www.omers.com>

OTPP – Ontario Teachers' Pension Plan: <http://www.otpp.com>

Ontario Pension Benefits Act (PBA) – legislation that governs pensions in Ontario. The Superintendent of Financial Services in Ontario administers the Act

Ontario PSPP – Ontario Public Service Pension Plan. This plan provides benefits to public service employees: <http://www.opb.ca>

Pension portability – the ability of a pension plan member to transfer their pension credits from one plan to another plan typically when changing employers

Statement of Investment Policy and Procedures (SIP&P) – this document defines investment policies, principles and eligible investments for a pension plan (in accordance with the Pension Benefits Standard Act)

Solvency shortfall – when a plan has more liabilities than assets calculated under a solvency valuation. In Ontario, a solvency deficiency must be eliminated over five years

Solvency valuation – this valuation test assumes that the pension plan stops operating at the time of valuation. It is meant to determine if a plan has sufficient assets to payout all the benefits that people have earned to date

Sponsor – the organization or individuals that establish a plan

Statutory plans – plans that have been established by legislation

UAPP – Universities Academic Pension Plan (Alberta): <http://www.uapp.ca>

YMPE (Year's Maximum Pensionable Earnings) – under CPP, the earnings amount that is used to calculate pension contribution each year

The Ontario Ministry of Finance also has an online glossary of pension terms: <http://www.fin.gov.on.ca/en/consultations/pension/report/glossary.html>