

Commonly Used Pension Terms

Accrued Benefit

The accumulated pension credits for years of credited service, expressed in the form of an annual benefit to begin payment at normal retirement age.

Actuarial Assumptions

In an actuarial valuation, a set of estimates of future developments affecting the cost of benefits to be provided under a pension plan (e.g. mortality, salary increases, investment return, employee turnover, retirement ages).

Actuarial Equivalent

Result of a calculation used to reduce or increase the amount of monthly pension payments when taken in a form other than the normal form at a different age, or with different survivor conditions, etc. but representing the same total value over the entire term of the expected payments.

Actuarial Valuation

Examination of a pension plan by an actuary to assess the solvency of the plan and determine the level of contributions required to maintain its solvency.

Actuary

A trained specialist in the pension and insurance fields. In Canada, full professional recognition requires membership in the Canadian Institute of Actuaries.

Additional Voluntary Contribution (AVC)

A contribution to a pension plan by a member beyond any amount that the member is required to contribute by the terms of the pension plan.

Administrator

The person or persons that administer the pension plan.

Benefit Formula

Provision in a pension plan for calculating a member's defined benefit according to years of service and earnings.

Canada Pension Plan (CPP)

Federal program which is compulsory for all employees in pensionable employment. Provides a monthly pension payable from age 65 or a reduced monthly pension from as early as age 60.

Career Average Formula

A defined benefit formula that applies the unit of benefit to earnings of the member in each year of service.

Commuted Value

Amount of an immediate lump-sum payment estimated to be equal in value to a future series of payments.

Continuous Service

Period during which an employee is continuously employed by the same employer; may be defined in a pension plan (or by law) to include certain periods of absence, and service with an associated or predecessor employer.

Contributory Plan

A pension plan that requires the employee to make contributions by payroll deduction in order to qualify for benefits under the plan.

Credited Service

Periods of employment counted in calculating an amount of pension benefit; may also be a basis for qualifying for a particular type of benefit.

Deferred Profit Sharing Plan (DPSP)

A savings plan to which employer contributions are made from profits, or determined in accordance with profits.

Defined Benefit Pension Plan (DBPP)

A plan that defines the pension to be provided (based on service, average earnings, etc.) but not the total contributions. If the plan is contributory, the rate of employee contribution may be specified, with the employer paying the balance of the cost. Under most provincial pension legislation, if the plan is contributory the employee may not pay for more than 50% of the cost of providing the pension benefit.

Defined Contribution Pension Plan (DCPP)

A plan under which employer contributions and, if applicable, employee contributions are individually allocated to the credit of the employees and provide whatever pension the accumulated contributions and investment earnings will buy at retirement. The amount of contributions is usually determined by a specific formula.

Deferred Annuity

A pension benefit, payment of which is deferred until the person entitled to the pension benefit reaches the normal retirement date under the pension plan.

Fiduciary

One who occupies a position of confidence or trust and who exercises any power of control, management or disposition with respect to monies or property of a pension plan or who has authority or responsibility to do so.

Final Average Earnings Formula

A defined benefit formula that applies the unit of benefit credited for each year of service to the member's average earnings for a specified number of years just before retirement.

Flat Benefit Formula

A defined benefit formula that specifies a dollar amount of pension to be credited for each year of service.

Group Registered Retirement Savings Plan (GRRSP)

a program covering individual RRSPs offered by an employer to its employees, allowing payroll deduction for employee contributions. Investment decisions are made by the employees. Sometimes employers contribute to the GRRSP; any employer contribution confers a taxable benefit on the employee.

Locked-In

Requirement under provincial pension legislation that states that a pension benefit earned after a certain date cannot be withdrawn or forfeited if the employee on termination of employment has attained a certain age or has completed a certain period of service or plan membership.

Locked-In Registered Retirement Savings Plan

An RRSP that accepts only locked-in pension funds that can only be used to provide the individual with an income payable for life.

Locked-In Retirement Account (LIRA)

This is the name given to a Locked-in RRSP in the provinces of Alberta, Manitoba, New Brunswick, Quebec and Saskatchewan.

Non-Contributory Plan

A pension plan in which all required contributions are made by the employer.

Old Age Security (OAS)

Federal program providing a universal, flat rate pension to all residents age 65 and over, regardless of need, who meet the residency requirements; also provides income-tested supplements.

Past Service Pension Adjustment (PSPA)

The amount of reduction in an individual's RRSP contribution room due to the granting of certain additional past service benefits by an employer in a defined benefit pension plan.

Pension Adjustment (PA)

The deemed value that is placed on the benefit accruing under a registered pension plan or deferred profit sharing plan in a particular year.

Pension Legislation

Laws and regulations under which employment pension plans must be registered and meet prescribed standards relating to vesting, solvency, investments etc. The acts for provincially registered companies are:

- the Employment Pension Plans Act – Alberta;
- the Pension Benefits Standards Act – British Columbia;
- the Pension Benefits Act – Manitoba;
- the Pension Benefits Act – New Brunswick;
- the Pension Benefits Act – Newfoundland and Labrador;
- the Pension Benefits Act – Nova Scotia;
- the Pension Benefits Act – Ontario;
- the Supplemental Pension Plans Act – Quebec;
- the Pension Benefits Act – Saskatchewan;
- and for federally registered companies, the Federal Pension Benefits Standards Act.

Pension Fund

A fund consisting of money contributed by the employer and/or the employees, plus earnings to provide pension benefits.

Portability

Describes the right of an employee to take with him, upon separation from the employer, pension entitlements that are vested.

Registered Pension Plan (RPP)

An employment pension plan accepted for registration for tax purposes under the Income Tax Act and for registration under applicable provincial pension legislation.

Registered Retirement Savings Plan (RRSP)

A plan for individual tax-sheltered savings.

Required Contributions

Contributions that are required to be made by the employee and employer in accordance with the terms of the pension plan.

Trustee

One who acts in a capacity of trust as a fiduciary and to whom property has been conveyed for the benefit of another party.

Trusteed Pension Plan

A pension plan in which the contributions are placed in a trust for investment or reinvestment, as distinguished from a plan in which the benefits are secured by life insurance.

Unfunded Liability

Generally, any amount by which the assets of a pension plan are less than its liabilities.

Vesting

The right of an employee, on termination of employment, to part or all of his accrued benefit. Vesting is usually in the form of a deferred annuity commencing at normal retirement age. Vesting is said to be conditional if an employee has the option of a cash withdrawal. Statutory vesting occurs when an employee meets the age and/or service conditions set in provincial pension legislation. Benefits as a result of statutory vesting are locked-in.

Year's Maximum Pensionable Earnings (YMPE)

Term used in Canada Pension Plan, often referred to as the earnings ceiling: the maximum amount of annual earnings on which CPP contributions and benefits are calculated. YMPE changes each year according to a formula based on average wage levels.