UNIVERSITY PENSION PLAN ONTARIO

Glossary of Pension Terms

Actuary – a professional responsible for, among other things, performing valuations of the assets and liabilities of pension plans and calculating the costs of providing pension benefits. In Canada, a person must be a Fellow of the Canadian Institute of Actuaries (CIA) to be recognized as an actuary.

Administrator or Board of Trustees– the fiduciary body responsible for managing the plan in accordance with plan terms and applicable legislation, including collecting contributions, investing plan assets, interpreting the provisions of the plan documents and paying pensions.

Assets – anything of monetary value that is owned by the pension plan, including cash, investments, property, etc.

Beneficiary – the spouse, estate or person(s) designated by a member to receive any death benefits payable from the plan after that member's death.

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, years of participation and how much the individual and employer contributes.

CPP maximum salary – the Year's Maximum Pensionable Earnings at the beginning of a university year.

Commuted value (also called **transfer value** or **lump sum value**) **–** the estimated amount of money that would need to be put aside today to provide the pension that has been earned, calculated by an actuarial formula using prescribed assumptions.

Contribution rate – the amount employees and/or employers contribute to the plan, usually expressed as a percentage of earnings.

Current service cost–the cost of pension benefits earned by all plan members during a plan year.

Custodian–the organization (usually a bank or trust company) that holds the securities and other assets of a pension plan in safekeeping.

Death benefit – the amount payable (as a lump sum or monthly benefit) to the spouse, beneficiary or estate of a plan member who dies before or after retirement.

Deferred pension – a pension payable to an employee who no longer works for the employer but has chosen to leave his or her pension benefits in the plan to receive at a later date.

Defined benefit (DB) plan – a pension plan that pays a lifetime retirement benefit based on a preset formula. That formula is typically based on a member's earnings and years of pensionable service.

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Defined contribution (DC) plan – a pension plan that defines the contributions made by the employer and, where applicable, the employees. Contributions are deposited in an account set up in the member's name and, typically, are invested by the member based on the investment options offered under the plan. At retirement, the money accumulated in the account is used to provide a pension.

Eligibility requirements – the conditions an employee must satisfy to participate in a plan.

Fiduciary – a legal relationship of trust where one person (the fiduciary) holds and/or controls property for the benefit of another person – for example, the relationship between a JSPP administrative board and the JSPP members.

Financial Services Commission of Ontario (FSCO) – the Ontario government body that regulates financial services, including pension plans. The Superintendent of Financial Services is CEO of FSCO and reports to the Minister of Finance.

Fully funded plan – a plan that has enough assets to provide for all pensions earned by members, as of a certain date.

Fund – plan assets held for the purpose of paying pension benefits.

Funding policy – a document addressing the allocation of contributions between employees and employers, treatment of gains/losses, conditions to withhold conditional indexing for retiree pensions, actuarial aspects of funding and thresholds to guide decisions related to contribution increases/decreases and benefit improvements/reductions.

Future service – years of pensionable service from the date a person enters a pension plan, or from the date of calculation, to eventual termination date, retirement date or death.

Going concern shortfall – when a plan has more liabilities (the cost of pensions earned by members) than assets, as determined by a going concern valuation. Currently, in Ontario, a going concern shortfall must be paid off over 15 years.

Going concern valuation – the value of plan assets and liabilities assuming the plan will continue to operate indefinitely into the future

Indexation – periodic adjustments to pension benefits to reflect increases in the cost of living (typically linked to Canada's Consumer Price Index), usually starting from the member's retirement date.

Jointly sponsored pension plan (JSPP) – a defined benefit pension plan in which the employees (often through their bargaining agents) and employers share responsibility for the plan's governance and funding. The employers and employees are jointly responsible for the governance of the pension plan, including all decisions about the terms and conditions of the plan, any plan amendments and the appointment of the plan administrator, among other things.

Liabilities – the value of pensions owed to members.

Locking in (or locked-in) – a legislative requirement that pension benefits be used solely to provide a retirement income at or after eligible retirement age.

Members– the members of a pension plan are referred to as:

- *active,* if they are currently earning pensionable service in the plan and making contributions;
- *deferred members,* if they have stopped employment and are not eligible to earn future pensionable service but are entitled to pension benefits (also referred to as former members);
- *retired,* if they are receiving pension payments; and
- *beneficiaries,* if they are receiving pension payments as a surviving spouse or beneficiary following the member's death.

Multi-employer JSPP – a JSPP that involves two or more employers contributing to the plan.

Normal form of pension – the default manner in which a pension is paid to a retired member, including post-retirement death benefits payable to any surviving spouses or beneficiaries.

Pension – the monthly, annual or other periodic amounts paid to a member at retirement that continue for the rest of his or her life, or to a surviving spouse or beneficiary after the member's death.

Pension Benefits Act (PBA) – the Ontario legislation that establishes minimum standards for registered pension plans in Ontario.

Postponed retirement – members may retire at any age after normal retirement but must start pension payments by the end of the year they reach age 71.

Shortfall or deficit – the difference between the value of the pension fund's assets and its liabilities (the value of pensions) as determined by the going concern or solvency valuations.

Single employer pension plan (SEPP) – a pension plan sponsored by a single employer or a group of related employers.

Solvency shortfall – when a plan has more liabilities (the value of pensions earned by members) than assets, as calculated under a solvency valuation.

Solvency valuation – the value of plan assets and liabilities assuming the pension plan stops operating on the date of the valuation. It is meant to determine if a plan has sufficient assets to pay out all pensions that members have earned to date.

Special payments – the payments required to pay down an unfunded liability or shortfall.

Sponsor – in respect of a SEPP, this is typically the employer. In respect of a JSPP, a Sponsor Board is the organization of the employers and plan members that create the JSPP and who typically retain certain

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authority over the plan, relating to plan provisions, contribution rates, funding and policies, etc. Under a JSPP, employers and employees typically each have 50% control of the Sponsor Board.

Spouse – under Ontario pension law, your spouse is the person who, at the time of determination, is living with you and is:

a) married to you; or
b) not married to you but has been living with you in a:
- conjugal relationship continuously for at least three years; or
- a relationship of some permanence, if you are the parents of your own or an adopted child as set out in section 4 of the Children's Reform Act.

Year's Maximum Pensionable Earnings (YMPE) – the maximum earnings amount used to calculate CPP contributions each year.

Wind up – the termination or discontinuation of a pension plan, usually at the decision of the pension plan sponsor. This often results from bankruptcy, corporate restructuring or downsizing. For a multi-employer JSPP to wind up, the sponsor board must agree to the windup.