Pension Terms and Acronyms

GENERAL TERMS

Bridging benefits paid to a plan member are benefits payable for a temporary period ending no later than a date known at the time payments start. They are usually paid from the time pension payments begin until the date the member starts to receive benefits from the Old Age Security program or the Canada Pension Plan or Quebec Pension Plan, or when the member reaches age 65. See subsection 8500(1) of the Income Tax Regulations for the definition (Source: http://www.cra-arc.gc.ca/tax/rgstrd/pblctns/glssry-eng.html Accessed 24/04/2014).

The commuted value is the amount of a lump sum payment payable today estimated to be equal in value to a future series of payments. At retirement, under the QPP one has the option to take the commuted value of one’s pension out of the Plan rather than receiving a Queen’s pension.

Current service - Benefits in pension plans are earned in respect of service being provided by a member to the employer. Current service refers to service that is rendered on a present basis and does not include any service that is purchased on a retroactive basis. Money purchase provisions are designed to accept contributions determined from current service only, plus earnings on the balance in the member’s account. Defined benefit provisions can allow for benefits to be provided based on current service and past service (Source: http://www.cra-arc.gc.ca/tax/rgstrd/pblctns/glssry-eng.html Accessed 24/04/2014).

Indexing is some type of arrangement to allow for pension increases after a person begins to receive the pension. Designed to mitigate the effects of inflation and in many plans is linked to some proportion of the annual increase in the consumer price index (CPI). In the QPP, increases are linked to what is referred to as “excess interest” i.e. the increase in a given year is the positive difference between the average return on the pension fund over the previous 6 years and 6%. If the difference is negative then there is no increase in the pension. A non-reduction reserve is also kept to maintain pension payments to pensioners. In the past, the employer contributed 1.5% of employer and employee money purchase contributions to a non-reduction fund. As of January 1, 2012, this contribution has been replaced by a phased in 4.5% (by Sept. 1, 2014) charge against ALL money purchase balances at retirement (additional voluntary contributions, past service accounts and special vested accounts).

A merger occurs when two or more pension plans of the same participating employer are merged together. The members cease to accrue benefits under one pension plan and begin to
accrue benefits under the other plan. All of the assets of the terminating plan are transferred to the continuing plan. Mergers may involve two or more plans being transferred into one continuing plan (Source: [http://www.cra-arc.gc.ca/tx/rgstrd/pblctns/glssry-eng.html](http://www.cra-arc.gc.ca/tx/rgstrd/pblctns/glssry-eng.html) Accessed 24/04/2014).

The **plan sponsor** is the body that establishes and maintains a registered pension plan. A present, the Queen’s University is the sponsor of the QPP. Queen’s is also the plan administrator (Source: [http://www.cra-arc.gc.ca/tx/rgstrd/pblctns/glssry-eng.html](http://www.cra-arc.gc.ca/tx/rgstrd/pblctns/glssry-eng.html) Accessed 24/04/2014).

The **present value** is the value today of a promised future amount. With respect to defined benefit pension plans, it is used in the context of valuing future promised benefits for funding purposes (Source: [http://www.cra-arc.gc.ca/tx/rgstrd/pblctns/glssry-eng.html](http://www.cra-arc.gc.ca/tx/rgstrd/pblctns/glssry-eng.html) Accessed 24/04/2014).

**Solvency Liability** is the liability of a pension plan for all defined benefits if the plan is wound up and benefits are paid out to current plan members and pensioners immediately.

**Stranded Liabilities** are solvency liabilities arising from past service of current plan members and retirees for which a plan sponsor remains responsible for funding upon plan wind-up or merger.

**Temporary Solvency Funding Relief** – For specified plans in the Broader Public Sector (the QPP is one), two stages of funding relief is provided. Stage One allows for the deferral of special payments to eliminate the solvency deficit for 3 years in order to develop plan changes that would meet the criteria for Stage Two relief. During Stage One, only interest is paid on the unfunded solvency liability. Stage Two relief would allow plan sponsors to amortize special payments to fund the solvency liability over 10 years instead of the usual 5 years. The QPP qualified for Stage 1 relief in 2011 and the changes made to the plan during bargaining in 2011 are understood to meet the criteria for Stage Two relief.

**Yearly Maximum Pensionable Earnings (YMPE)** – The maximum level of earnings used to calculate contributions and pension under the Canada Pension Plan ($52,500 for 2014). Contribution rates to a workplace pension plan are usually lower below YMPE and higher above YMPE (on earnings not covered by the CPP). QPP contribution rates for the employer are now 6.0% up to YMPE plus 7.5% above YMPE, and 7% up to YMPE plus 9% above YMPE for employees.
TYPES OF PENSIONS

In a Defined Benefit (DB) pension, a defined amount of pension is promised based on a formula. Types of formulas include: flat benefit (set benefit not dependent on earnings or years of service); career average (a percentage of earnings for each year in the plan accrued); and final average (length of service and average earnings for a set number of years before retirement or the highest average earnings of a set number of years at any point in the plan).

In a Defined Contribution (DC) pension, employer and employee contributions to the plan are defined, the amount of the final pension depends on the market performance of the pension fund and, therefore, is unknown until retirement. Types of DC plans include: money purchase (employer-paid or employer and employee contributions) and profit-sharing (subject to a minimum of 1% of employee earnings, employer contributions are based on a formula related to company profits).

Hybrid pension is a pension plan with both DB and DC components that usually provides the greater of the DB or DC pension. Think of it as a DC plan that guarantees a minimum DB level of pension income. There are also combination plans that provide a pension that is the sum of a DB portion and a DC portion.

Jointly-sponsored Pension Plan (JSPP) – in Ontario under current legislation, JSPPs are defined-benefit plans that must meet the following criteria: employees must make pension contributions; the pension plan must require members of the pension plan to make contributions in respect of any going concern unfunded liability and solvency deficiency; and any additional criteria that may be prescribed. 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 (Source: https://www.fsco.gov.on.ca/en/pensions/administrators/Pages/reg177faq.aspx. Accessed 28/04/2014).

Target benefits pension – In Ontario, this type of pension must not provide DC benefits; the employer’s contributions are set to a fixed amount within a collective agreement; and the pension administrator may reduce benefits, deferred pensions or pensions accrued unless prohibited within a collective agreement. This type of pension is sometimes referred to as a hybrid pension, but it is one in which risk is borne more by the plan members and not so much by the employer. A “target” pension benefit is established and contributions levels are calculated to make that target under a set of assumptions (like a DB plan), but there are no...
guarantees on the actual benefit paid (like a DC plan). This is the type of plan the federal Conservatives have suggested for federally regulated industries.

The Queen’s Pension Plan (QPP) is a hybrid plan with the components below from the Queen’s Pension Plan Guide


The two methods of calculating your pension are:

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<th>Money Purchase Benefit</th>
<th>Minimum Guarantee Benefit</th>
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| An investment account is held for you in the Pension Trust Fund. Both your own required and the University’s Money Purchase contributions are invested in this account. Your total annual pension under this benefit depends on the accumulated value in your account. The longer you contribute, the greater is the amount in your account. The better the investment performance of the Fund, the more interest your account will receive and therefore, the amount in your account will be larger. At retirement, your total account accumulation will be converted to an annual pension using an annuity factor determined by the plan’s administrator. | Your pension benefit depends only on your earnings and years of participation in the plan. Your annual pension benefit is calculated using the following formula:  
  
  - 1.35% of your Best Average Earnings below the Average YMPE for service to August 31, 1997  
  **plus**  
  - 1.4% of your Best Average Earnings below the Average YMPE for service from September 1, 1997  
  **plus**  
  - 1.80% of your Best Average Earnings above the Average YMPE for total service |

At retirement, you receive the higher of these two amounts as your pension.

MORE INFORMATION

For more definitions related to pensions, the following sites have useful glossaries:

For federal/CRA focused terms: http://www.cra-arc.gc.ca/tax/rgstrd/plblctns/glsrry-eng.html