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pensions
backgrounder

The Language of Pensions - A Glossary

The full series of pension backgrounders are contained in the National Union's Pensions Manual, Fourth Edition—available from the National Office

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B A C K G R O U N D E R

The Language of Pensions – A Glossary

... A ...

Accrual of Benefits In the case of a defined benefit pension plan, the process of accumulating pension credits for years of credited service, expressed in the form of an annual benefit to begin payment at normal retirement age. In the case of a defined contribution plan, the process of accumulating funds in the individual employee's pension account.

Accrue When actuaries say that pension benefits, actuarial costs and actuarial liabilities have accrued, they ordinarily mean that the amounts are associated, either specifically or by a process of allocation, with years of employee service before the date of a particular valuation of a pension plan.

Accrued Benefit For any retirement plan that is not a defined benefit pension plan, a participant's accrued benefit is the balance in his or her plan account, whether vested or not. In the case of a defined benefit pension plan, a participant's accrued benefit is his or her benefit as determined under the terms of the plan expressed in the form of an annual benefit commencing at normal retirement age.

Active Management A style of investment management that seeks to attain above average risk-adjusted performance.

Actuarial Accrued Liability The actuarial accrued liability of a pension plan at any time is the excess of the present value, as of the date of valuation, of total prospective benefits of the plan (plus administrative expenses if included in the normal cost) over the present value of future normal cost accruals, determined by the actuarial cost method in use.

Actuarial Adjustment The result of offsetting the actuarial gains and losses in an annual actuarial valuation.

Actuarial Assumptions Factors that are taken into account by actuaries regarding future experience of defined benefit pension plans in order to estimate the future cost of pension benefits. They include such things as mortality, salary levels and increases, investment return, employee turno-

ver, early retirement provisions and inflation protection.

Actuarial Gain or Loss The effects on actuarial costs of deviations or differences between the past events predicted by actuarial assumptions, and the events that actually occurred. An actuarial gain results where the actual experience under the plan is more favourable than the actuary's estimate, while an actuarial loss reflects an unexpectedly adverse deviation.

Actuarial Reduction The reduction in the normal retirement benefit that offsets a cost increase to the plan when a participant retires ahead of schedule.

Actuarial Table A tabular listing of assumed rates of decrement for death, disability, retirement and withdrawal from service according to age and sex. The table may consist of mathematical functions derived from the rates of probability combined with an interest discount factor.

Actuarial Valuation An assessment of the financial health of a pension plan by an actuary to determine the present value of future benefits to assess plan assets and to determine the level of contributions required to maintain solvency.

Actuary A person professionally trained in the technical and mathematical aspects of insurance, pensions and related fields and, in Canada, a member of the Canadian Institute of Actuaries. The actuary estimates how much money must be contributed to a pension fund each year in order to support the benefits that will become payable in the future.

Ad Hoc Adjustments Adjustments of pensions being paid or of accrued pension benefits on an irregular basis and not as a result of a prior commitment or contract. (See Indexing.)

Additional Voluntary Contributions Voluntary employee contributions made to a pension plan to purchase extra benefits. They are in addition to required contributions. The employer assumes no additional cost.

Administrator The party responsible for managing the pension fund and administering the plan in accordance with the plan's terms and prevailing legislation.

Alpha The premium a fund would be expected to earn if the market rate of return were equal to the Treasury bill rate, that is, a premium of zero for the market rate of return. A positive alpha indicates that a fund has earned on the average a premium above that expected for the level of market variability. A negative alpha would indicate that a fund received

on the average a premium lower than that expected for the level of market variability. Sometimes alpha is used as a performance indicator or as a surrogate for selectivity.

Ancillary Benefit A benefit that is in addition to regular retirement pension benefits, such as, inflation protection, bridging benefits and disability pensions.

Annuitant A person entitled to receive payments under an annuity; a person receiving such payments.

Annuity A payment of money under a contract made periodically (usually monthly) commencing at a predetermined time or event and continuing for the lifetime of an individual (the annuitant). The series of predetermined payments may be for a fixed or variable amount and may continue, usually at a lower rate, to the beneficiary's spouse or for a specified period after the annuitant's death. Usually purchased with a lump sum of money.

Annuity Rate The price charged by a seller of annuities to provide a dollar of annuity per month to an individual based on the person's age, interest rates and conditions specified in the contract.

Approved Plan A pension, deferred profit-sharing or stock bonus plan that meets the requirements of the applicable Revenue Canada regulations. Such approval qualifies the plan for a favourable tax treatment. Approval of a pension plan does not indicate any judgment regarding the plan's actuarial soundness.

Asset Allocation Decision A process that determines the optimal distribution of funds among various types of assets that offer the highest probability of consistently achieving investment objectives within the confines of a predetermined level of risk. The process often includes the use of a computer model program to assist in the processing of a myriad of data.

Asset Consultant A person who assists and advises in the investment of fund assets. Areas of expertise include investment policy and asset allocation, investment strategies, selection of investment managers and custodians and performance evaluation.

Auditor A professional accountant who prepares an audit of the transactions affecting the pension plan and / or pension fund and verifies the financial statement.

Average Industrial Wage (AIW) Average earnings for the Industrial Composite of Wages and Salaries, measured by Statistics Canada. Although used to represent an annual average wage for all Canadians, it does not

take into account these industries: agriculture, fishing and trapping, private household services, religious organizations and military services. Used in determining the Year's Maximum Pensionable Earnings under the CPP / QPP.

... B ...

Back End Load A sales charge due upon the sale, transfer or disposition of securities, partnership interests, annuities, life insurances or mutual funds.

Balanced Funds Investment companies that diversify their portfolio holdings over a wide list of common stocks, bonds and / or preferred issues.

Bankruptcy A condition characterized by the inability to repay debts in full because the liabilities (amounts owed) exceed the assets. Legally, a bankrupt is an individual or corporate debtor that is judged insolvent by a court.

Basis Point A measurement of fluctuation in the current yield equal to 1/100 of 1% on bonds or bills.

Bear Market A market where prices decline sharply against a background of widespread pessimism, growing unemployment and business recession. The opposite of bull market.

Beneficiary With reference to a pension plan, a beneficiary is the person(s) who, on the death of a current or former plan member, is entitled to a benefit under a pension plan.

Benefit Generally, any form of payment to which a person may become entitled under the terms of a pension plan; often refers specifically to the normal pension provided by the plan benefit formula.

Best or Final Average Earnings A defined benefit pension formula which applies the unit of benefit credit for each year of service to the plan member's average earnings for a specified period of the highest earnings, such as, best five of the last 10 years of service or to the plan member's average earnings for a specified period of time just prior to retirement, such as, final three years of service.

Birth Rate The number of live births per 1,000 population.

Blue Chip The stock of a leading company that is known for excellent management and a conservative financial structure.

Bond A certificate of debt (i.e. an IOU or promissory note) issued by such entities as corporations, municipalities and the government and its agencies, in multiples of 1,000 to 5,000 that represents a part of a loan to the issuer, bears a stated interest rate and matures on a stated future date. A

bondholder is a creditor of the issuer and not part owner as is a stockholder. Short-term bonds, issued for five years or less, are often called notes.

Bond Fund An investment company that holds corporate, municipal or Treasury bills. Such companies concentrate variously on high grade bonds, medium grade bonds, convertible bonds or a combination of bonds and preferred stocks. Their main objective is securing the principal with as much income as possible.

Bond Yield The rate of return on bonds.

Bridging Benefit A temporary benefit paid to ease the recipient's difficulties during a relatively short transitional period; or, in the case of retirement before age 65 under a workplace pension plan, additional amounts paid until the person reaches age 65 when OAS and CPP / QPP benefits will commence.

Bull Market An advancing stock market. The opposite of bear market.

Buyback of Past Service Special payments by an employer and / or employee to the employee's pension fund to cover a period of service before becoming a member of the pension plan.

... C ...

Canada Pension Plan / Quebec Pension Plan (CPP / QPP) The two major social security programs in Canada. The provisions of these two government-administered plans are virtually identical. Both are funded by employee and employer contributions on a partial pay-as-you-go basis. The Quebec Pension Plan operates in the province of Quebec; the Canada Pension Plan operates in the rest of Canada.

Canadian Association of Pension Supervisory Authorities (CAPSA) Consists of senior government officials (provincial and federal) responsible for the administration of pension legislation in each jurisdiction.

Career Average Earnings Formula A defined benefit pension formula which applies the unit of benefit to average earnings over the whole period of coverage under the plan for each year of service.

Carry Forward The portion of an RRSP deduction entitlement unused in a particular year may be carried forward for the following seven years. The amount carried forward is in addition to the regular RRSP contribution for that current year.

Cash Out A pension plan may provide for the forfeiture of an accrued benefit where the plan provides for a cash out of an employee's ben-

efits by making a lump sum distribution to the employee. The cash out applies only to the employee's non-forfeitable interest upon termination of service prior to retirement.

Cash Profit Sharing Plan A compensation plan that is not registered and is funded with reference to the profits of the employer. Benefits are taxed as employment income to the member.

Certified Financial Planner (CFP) A designation granted by the Financial Planners Standard Council of Canada to individuals who complete a series of educational requirements, courses and examinations in the areas of personal financial and retirement planning and who pledge to a code of ethical standards and continuing education.

Child-Rearing Dropout A provision under CPP / QPP to make allowance for periods in which no (or low) contributions were made while the contributor was raising children under the age of seven.

Claw Back (or Tax Back) Refers to a reduction in Old Age Security benefits because of income (individual or family) from other sources.

Commuted Value The value of a pension, a deferred pension, a pension benefit or an ancillary benefit as of a fixed date, which is estimated to be equal in value to a series of future payments.

Compound Interest Interest upon principal credited to an investor at a specified rate and on specified dates.

Compulsory Retirement Where the employee must retire when he or she reaches a given age. Now prohibited under Canadian Charter of Rights and Freedoms if based solely on age, except for certain executives or where public safety outweighs individual protection (e.g. airline pilots). Also known as automatic or mandatory retirement.

Consumer Price Index (CPI) An index compiled by Statistics Canada reflecting cost-of-living changes during a specified period of time and achieved by measuring the price of a fixed basket of goods and services relative to its price in an earlier base year.

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

Contribution The transfer of funds by either an employer or an employee to an employee retirement plan.

Contribution Holiday The use of surplus in a pension plan to reduce or eliminate employer and / or employee contributions to the plan for a specified period of time.

Contributory Pension Plan A pension plan under which both the employees and their employer make contributions. The employees' contributions are usually related to their earnings and made by payroll deduction. Employees must contribute to this plan to qualify for benefits.

Contribution Rate In a contributory pension plan the contribution rate is the ratio of required contributions to the covered earnings. The term can apply to either the employee or the employer.

Cost Certificate The certificate of an actuary, based on an actuarial valuation, setting out costs and contributions required under an employment pension plan. Under pension benefits legislation, a cost certificate must be filed when a plan is established and at least every three years thereafter and when the plan is amended.

Cost-of-Living Adjustment (COLA) An across-the-board increase (or decrease) in wages or pension benefits according to the rise (or fall) in the cost of living as measured by some index, often the Consumer Price Index (CPI).

CPP See Canada Pension Plan.

Credit Splitting A provision in a pension plan or legislation entitling a spouse, on divorce or breakup, to a share of pension credits earned by the other during the marriage or thereafter.

Credited Service Periods of employment counted in calculating the amount of a pension. May also be used as the basis for qualifying for a particular benefit.

Cumulative Rate of Return A compound rate of return covering more than one period or year.

Custodian A company (usually a trust or insurance company) or person performing functions related to the administration of the pension fund, including: safekeeping of assets and security certificates; maintaining accounts and records; providing regular statements of fund transactions and holdings; receiving plan contributions and investment earnings; making payments to beneficiaries and paying expenses as directed; and settling trades with investment dealers on instructions from the investment manager(s).

... **D** ...

Death Benefit The amount payable (usually as a lump sum) from a plan to the beneficiary or estate of a member of the plan who dies before or after retirement.

Deferred Compensation Arrangements by which compensation to employees for past or current service is postponed until some future date. Pension and profit-sharing plans are tax-favoured deferred compensation plans.

Deferred Profit Sharing Plan (DPSP) A money purchase plan which is defined in the Income Tax Act and funded out of annual profits by an employer for the benefit of employees. Tax on employer contributions and investment income is deferred until the plan member receives a benefit. Employee contributions are not permitted.

Deferred Wages Compensation for current services is deferred and received in the future in the form of pension benefits.

Defined Benefit Plan A pension plan that specifies the pension to be provided (based on service, average earnings, fixed dollar amount, etc.) but does not specify the total contributions. If the plan is contributory, the rate of the employee contributions may be specified, with the employer required to pay the balance of the cost.

Defined Contribution Limit The maximum contributions and additions an employer may make on behalf of a pension plan participant.

Defined Contribution Plan A pension plan that specifies contributions made by the employer and employees but does not specify the benefits payable under the plan. The contribution level is usually a fixed percentage of the employee's salary. Accumulated contributions and investment earnings are used to purchase annuities for retirees. The value of annuity varies with the state of the market. Benefits depend entirely on investment earnings and annuity rates at the time of retirement. Also referred to as Money Purchase Plan.

Deflation A phase of the business cycle during which consumer spending is seriously curtailed, bank loans contract and the amount of money in circulation is reduced. (Antonym: inflation)

Dependent Child's Benefit Under the Quebec Pension Plan (QPP), a monthly amount payable to each dependent child of a disability pensioner or deceased contributor.

Disability Benefit Periodic payments, usually monthly, payable to participants under some retirement plans if such participants are eligible for the benefits and become totally and permanently disabled prior to the normal retirement date.

Disability Pension Any pension payable to an employee totally and permanently incapacitated by physical or mental disability prior to the normal retirement date.

Drop-Out Periods A provision under CPP / QPP to make allowance for periods of no (or low) earnings. In addition to the CHILD-REARING DROP-OUT, the CPP / QPP allows 15% of the contributory period (the time contributions could have been made between the ages of 18 and 65) to be ignored in calculating the average earnings on which the contributor's pension is based. Also, periods during which a contributor was receiving a CPP / QPP disability pension are not included.

... E ...

Early Retirement Provision in a pension plan for retirement earlier than the normal retirement age. The pension to be paid may be reduced according to a formula based on the gap between the retiree's age and normal retirement age. The plan may also provide for an unreduced pension if certain conditions are met, such as length of service or service combined with age.

Early Retirement Age An age, established by the terms of an employee pension benefit plan, that is earlier than normal retirement age, at which a participant may retire and receive benefits (usually reduced) under the plan.

Earned Income With reference to RRSPs, includes employment income, alimony and maintenance received, net rental income from real property, CPP / QPP disability benefits and LTD benefits (if any part of the premium is paid for by the employer), but excludes pensions such as CPP / QPP and OAS, retiring allowances, death benefits, payments from RRSPs, taxable payments from DPSPs (i.e. withdrawals), investment income, alimony and maintenance paid, UIC benefits and severance monies.

Earnings Money acquired from employment or self-employment. In some pension plans, certain forms of pay that are not regularly received may be excluded such as overtime pay and shift premium.

Economically Targeted Investing (ETI) Investing the plan's money in an investment vehicle that directly affects the employment environment of the industries in which the participants of the plan are employed. (See Socially Responsible Investments.)

Eligibility Any conditions such as age or length of service that must be met before an employee is permitted or required to join a pension plan.

Employee Profit Sharing Plan (EPSP) A plan which is defined in the Income Tax Act and funded with reference to the profits of the employer. Employer contributions and investment income are taxable income to the

plan member in the same taxation year in which they are allocated rather than tax liability being deferred until benefits are actually received. Employee contributions are not tax deductible.

Employer Sponsored Pension Plan A pension plan offered by an employer or supported by a group of employers for the benefit of employees.

Employment Insurance (EI) The successor to Unemployment Insurance (see separate definition below). EI is similar in nature to UI, the main difference being that unemployed workers and others now find it more difficult to obtain and retain benefits.

Equity A form of investment which involves ownership (e.g. stocks, real estate and venture capital) as opposed to fixed income bearing securities (e.g. bonds).

Excess Earnings Earnings from investments of a pension fund in excess of an assumed or expected rate of return. When a pension fund's investments do better than expected, the fund can have a higher balance than expected and may produce a surplus in the fund beyond the resources required to cover pension obligations.

... F ...

Fiduciary Indicates the relationship of trust and confidence where one person (the fiduciary) holds or controls property for the benefit of another person, for example, the relationship between a trustee and the beneficiaries of the trust.

- Any person who (1) exercises any discretionary authority or control over the management of a plan or the management or disposition of its assets, (2) renders investment advice for a fee or other compensation with respect to the funds or property of a plan, or has the authority to do so, or (3) has any discretionary authority or responsibility in the administration of a plan.
- One who acts in a capacity of trust and who is therefore accountable for whatever actions may be construed by the courts as breaching that trust.

Final Average (Earnings) Formula A defined benefit formula that applies the unit of benefit credited for each year of service to the employee's average earnings for a specified number of years just prior to retirement.

Fixed Annuity An annuity contract in which the insurance company makes fixed (or guaranteed) dollar payments to the annuitant for the term of the contract (usually until he or she dies).

Fixed Income Fund A mutual fund that invests in corporate, government or other issuer bonds. Despite the name, annual income is rarely fixed or guaranteed.

Flat Benefit Pension Plan A specific kind of defined benefit pension plan which usually specifies the pension to be provided based on a fixed (or flat) dollar amount of pension per year of service irrespective of the level of earnings of the plan member, e.g. \$20 per month pension per year of service.

Flex pensions A provision approved under the Income Tax Act that allows a plan member to make additional contributions to purchase enhanced ancillary benefits, such as full inflation protection or improved survivor benefits.

Fluctuations Variations in the market price of a security up or down. If a stock advances or declines three points, it is said to have experienced a three point fluctuation.

Foreign Securities Investment in the securities issued by a company that is incorporated outside of Canada and generates a major portion of its business outside Canada, or securities issued by governments other than the Canadian government.

Front End Load With reference to mutual funds, a system of sales charge for contractual plans that permits up to 50% of the first year's payments to be deducted as sales charges. Investors can withdraw from the plan, but there are some restrictions if this occurs.

Funded To set aside money on a systematic basis in advance to provide future benefits.

... G ...

Group Annuity Plan A pension program underwritten and administered by an insurance company. Normally uses the unit benefit method of funding. Plan participants are covered under one contract; the employer pays premiums on their behalf.

Growth Fund A type of diversified common stock fund that has capital appreciation as its primary goal. It invests in companies that reinvest most of their earnings for expansion, research or development. The term also refers to growth income funds that invest in common stocks for both current income and long-term growth of both capital and income.

Growth Income Fund A mutual fund that seeks both capital growth and current income. The assets of these funds may be balanced (consist of

both equities and bonds) or stock funds whose assets are invested in high yielding common stocks.

Guaranteed Annual Income System (GAINS) Plan introduced by some provinces to aid low income retirees. The plan is in addition to OAS, GIS, CPP / QPP and other taxable income, up to a guaranteed level of income. (See Guaranteed Income Supplement; Spouse's Allowance.)

Guaranteed Annuity An annuity that will be paid for the lifetime of a person, but in any event for a minimum period; e.g. if annuity is guaranteed for five years and the annuitant dies after three years, payments will be continued to a beneficiary or the estate for two more years.

Guaranteed Income Supplement (GIS) An income tested supplemental benefit program for low-income recipients of the Old Age Security (OAS) pension.

Guaranteed Investment Certificate Evidences a deposit made with a financial institution. Maturities range from one to five years for amounts of at least \$1,000. It is issued in registered form on an interest bearing basis.

••• H •••

Hedge Fund Finances its portfolio partially by issuing securities other than common stocks. Some take short positions in stocks or write options; others issue debt.

Hybrid A pension plan with both defined benefit and defined contribution features in which the pension is typically the greater of one type subject to a minimum of another type, e.g. defined contribution with a defined benefit minimum or defined benefit with a defined contribution minimum.

••• I •••

Immediate Vesting That form of vesting under which rights to vested benefits are acquired by a participant, commencing immediately upon his or her entry into the plan.

Income Fund A mutual fund whose primary objective is current income. Such funds usually invest their assets in corporate or other bonds. Some income funds may include high yielding common stocks in their portfolios.

Income Test Any method by which a person or family's income is used in determining eligibility for payment under certain government programs, e.g. GIS. The higher the income, the lower the benefit payable. (See Means Test.)

Index Fund An investment fund (or account) composed of securities the characteristics of which will produce a return that will replicate (or substantially replicate) a designated securities index.

Indexing Automatic adjustments of pensions being paid or of accrued pension benefits in accordance with changes in an index such as the Consumer Price Index. (See Ad Hoc Adjustments.)

Individual Pension Plan (IPP) A registered defined benefit pension plan with one member.

Inflation An increase in the average level of prices for goods and services.

Integrated The pension formula of a defined benefit employment pension plan co-ordinates under plan contributions and / or benefits with those payable under a government-sponsored plan, i.e. CPP / QPP. Integrated plans usually provide a lower level of contributions and / or benefits on all or part of a plan member's earnings up to the Year's Maximum Pensionable Earnings or provide for pensions to be reduced by all or part of the CPP / QPP benefit. (See Stacked.)

Interest Periodic cash payments made by a borrower to a lender for the use of borrowed funds.

Investment Broker / Dealer A company or person performing the function of matching buyers and sellers of securities, who also provides research for investment managers.

Investment Manager A company or person that decides how to invest fund assets and select securities on a day-to-day basis within the discretion determined by the plan sponsor, usually in the form of an investment policy statement or manager mandate. The investment manager may be an independent counsellor, an insurance company, a trust company or a bank (or their investment subsidiaries).

Investment Objectives Long-term, risk-return targets developed principally from careful consideration of plan sponsor factors, investment factors and a forecast of the future. Critical in the adoption of investment objectives is the asset allocation decision.

Investment Policy Statement The statement of policy is the communication of a risk policy to the fund's investment manager(s). It states unambiguously the degree of investment risk that fiduciaries are willing to undertake with pension trust assets. A statement of investment policy differs importantly from a statement of investment objectives. An investment policy prescribes an acceptable course of action; a policy can be

acted upon, implemented. An investment objective (such as a performance standard) is a desired result. A manager cannot implement an objective; a manager can only pursue a course of action, consistent with investment policy, which the manager believes offers a reasonable likelihood of realizing the objective. Therefore, in drafting instructions for an investment manager, primary emphasis should be on stating the investment, or risk, policy clearly.

Investment Strategy Quest of active management to achieve additional return that more than compensates for the additional risk assumed. Generally, investment strategy relates to the intent of permissible portfolio changes within a broader policy context. Investment policy, including short-term strategy investment decisions, effectively implemented, helps achieve the long-term investment objectives.

... J ...

Joint Administration Provision for a union-management committee or board of trustees to assume supervisory functions relating to administration of an employee benefit plan.

Joint Life and Survivor An optional form of pension payable in a reduced amount until the death of the retired employee and continuing thereafter (usually in a still further reduced amount) to the surviving spouse until that person's death.

... L ...

Legal Advisor Provides legal advice and interprets plan provisions, pension legislation and regulations.

Liabilities Amount of money required to meet obligations to members of a pension plan.

Life Annuity A series of payments under which payments, once begun, continue throughout the remaining lifetime of the annuitant. Under this form of annuity, there is no further benefit payment of any kind after the death of the annuitant.

Life Expectancy Number of years a person of a given sex and age is expected to live. The number of years is a statistical average based on mortality tables showing the rate of death at each age and does not predict the life span of a particular individual.

Locking-in A legislated provision that means the plan member cannot withdraw either their own or their employer's contributions in cash

and can only use them to provide a pension at retirement. The date at which contributions are locked in varies by jurisdiction and is determined by attainment of a certain age and / or completion of a specified period of service or plan membership.

Locking-In Provisions (45 and 10 Rule) Pension benefit legislation requires that covered employees vest in the pension accrued to date of termination of employment if the employee has reached age 45 and has 10 or more years of service with the employer (or membership in the pension plan).

Long-Term Disability (LTD) Plan A benefit plan that provides income payments to a disabled individual after the expiry of short-term disability benefits.

Lump Sum Payment of a plan member's benefit(s) in a single amount that is estimated to have the same present value as the benefit(s) being replaced.

... M ...

Management Fee The amount paid by a mutual fund to the investment adviser for its services. The average fee industry-wide is about one-half of 1% a year of the fund's assets.

Mandatory Retirement A provision which requires a person to retire at a certain age.

Maximum Pension Benefit Regulations established by Revenue Canada limiting the maximum pension benefits payable under a defined benefit plan or a hybrid plan with a defined benefit component.

Means Test Any method by which a person's or family's assets are used in determining eligibility for payment under certain government programs, e.g. General Welfare Assistance. Benefits are reduced as the current asset position, as well as the income position, of the recipient improves. (See Income Test.)

Money Market That segment of the securities market that deals in short-term (less than one year) debt and equity issues.

Money Market Fund A mutual fund that seeks maximum current income through investment in securities whose maturities are less than one year. Such securities may include bank CDs, bankers' acceptances, T-bills, repurchase agreements (repos) and commercial paper.

Money Purchase Plan An occupational pension plan that lacks the specific guarantees of retirement income that are found in defined ben-

efit plans. When members of money purchase plans retire, whatever money has been built up over the years in their names is used to buy them annuities.

Mortality An actuarial assumption involving the probability of death at given ages used in estimating the cost of benefits payable under defined benefit pension plans.

Multi-Employer Pension Plan A pension plan covering employees of two or more independent employers, whose employees are engaged in similar types of jobs within a specified geographic area. A multi-employer plan recognizes service with one or more employers in determining pension benefits. Usually the plan is established by agreement with a union or group of unions.

Mutual Funds (Investment Companies) Companies or trusts that use their capital to invest in the securities of other companies, with the two principal types being the closed end and the open end trust. Shares of closed end funds are often listed on the Toronto Stock Exchange, and are traded like any other security. Capitalization of these funds remains fixed for the most part.

••• N •••

Net Asset Value (NAV) The value of a mutual fund share determined by deducting the fund's liabilities from the total assets of the portfolio and dividing this amount by the number of shares outstanding. This is calculated once a day based on the closing market price for each security in the fund's portfolio.

Net Replacement Ratio Measurement of adequacy of retirement income by relating it to income immediately before retirement, taking into account income taxes, tax credits, etc.

Non-Contributory Plan A pension plan in which all required contributions are made by the employer.

Normal Retirement Age The age set out in a plan at which plan members would normally retire and be entitled to full retirement benefits. Where actual retirement age is more than or less than normal retirement age, the retiree's pension will be actuarially increased or reduced.

••• O •••

Occupational Pension Plan A pension plan sponsored by an employer, labour union or professional organization. Occupational plans are some-

times called private pension plans, company pension plans, registered pension plans or employer-sponsored pension plans.

Old Age Security (OAS) Federal program providing a universal, taxable, flat rate pension to all residents aged 65 and over, regardless of need (although high income earners will have this benefit clawed back). Also provides income-tested supplements. Benefits are indexed quarterly to the increases in the Consumer Price Index.

... P ...

Past Service Period of service accrued by an employee prior to becoming a member of a pension plan. In some plans, the employees can buy back or pay the premiums for past service in order to improve their pension benefits.

Pay-as-you-go Pension arrangements where benefits are paid out of contributions currently being paid by and on behalf of active members, where assets are only held for the purpose of short-term liquidity. The payments might be made by an autonomous body, funded by the members and / or the employer or paid directly by the employer out of its own finances. Until recently, the Canada Pension Plan was entirely pay-as-you-go, with payments being made by the federal government out of its budgetary revenues.

Pension Generally, any regular periodic payment, usually for life, to a person who has retired from the service of an employer or has met certain age or other conditions for payments under a government pension program. Payments may also be made in the event of disability or death.

Pension Adjustment (PA) An amount, calculated annually, used in determining the maximum annual RRSP contribution. The adjustment reduces the allowable annual contribution by taking into account the assessed value of pension benefits earned or contributions made (as applicable) during the year under a registered pension plan or a deferred profit sharing plan.

Pension Commission A provincial government authority established under pension laws to protect employees' rights and entitlements under pension plans. For plans subject to federal laws, the governing body is the Office of the Superintendent of Financial Institutions (OSFI). For jurisdictions without a commission, a superintendent is responsible for performing this role.

Pension(s) Committee Group of persons designated according to the terms of a pension plan to oversee the administration of the pension plan.

Pension Consultant A person who assists and advises the plan sponsor, unions or other employee groups, in the management of the pension plan. Areas of expertise may include plan design, documentation, compliance with an interpretation of pension legislation, preparation of employee benefit statements and other communications, calculation of plan member benefit entitlements and administration.

Pension Plan A plan organized and administered to provide a regular income for the lifetime of retired members. Payments may also be provided in the event of disability or death.

Pension Trust A fund consisting of money contributed by the employer and / or the employee plus earnings to provide pension benefits.

Pensionable Service That part of a plan member's total service used to calculate pension entitlement.

Performance Measurement Purveyor A company or person performing the function of calculating rates of return and related statistics to measure and compare the performance of the fund.

Plan Document (Text) This document sets forth the benefits available under an employee benefit plan and the eligibility requirements. This document is often separate from the trust agreement in order to allow plan modifications without frequent trust agreement amendments.

Plan Sponsor An employer, union or other entity that establishes and maintains a pension plan for the benefit of plan members.

Plan Termination Discontinuance of an employment pension plan either on a voluntary or involuntary (e.g. as in bankruptcy) basis. The wind-up procedure is regulated by pension benefits legislation.

Portability The ability to transfer earned pension credits from the pension plan of one employer to the pension plan of another employer when changing jobs.

Portfolio The mix and composition of an investor's holdings among different classes of securities such as bonds, mortgages and common stock.

Portfolio Mix A combination or selection of investments, including stocks, bonds, real estate and selected limited partnership interests.

Postretirement Benefits All forms of benefits, other than retirement income, provided by an employer to its retirees.

Present Value Amount of money which, if invested today at a given rate of compound interest, would provide a defined benefit commencing at a specified future date.

Profit Sharing Pension Plan (PSPP) A registered money purchase plan that is funded with reference to the profits of the employer subject to an annual minimum employer contribution of at least 1% of the remuneration of plan members to be made even in years of little or no profit.

Prospectus A legal document setting forth the complete history and current status of a security issue, which must be made available to all interested purchases in advance of a public offering.

Proxy A written authorization given by a shareholder to someone else to vote his or her shares at a stockholders annual or special meeting called to elect directors or for some other corporate purpose.

Public Sector Pension Plan Occupational pension plan established by an employer covering employees of governments and public agencies including civil servants, municipalities, school boards, universities and colleges, hospitals, crown-owned corporations, boards of health, etc. It does not include statutory plans for citizens at large, such as OAS, GIS, CPP / QPP, etc.

Public Safety Occupations A provision in the Income Tax Act which allows employees in public safety occupations to retire with an unreduced pension earlier than other employees; i.e. age 55 (60 for others); 25 years of service (30 for others); or age plus years of service total 75 (80 for others). The public safety occupations are firefighter, police officer, corrections officer, air traffic controller and commercial airline pilot.

... Q ...

Quebec Pension Plan (QPP) A public earnings-related plan operating in the province of Quebec, introduced together with the Canada Pension Plan (CPP) in 1965, for all Quebec workers between the ages of 18 and 70. The two plans are similar but not identical. Financing is on a partial pay-as-you-go basis with only a small asset base relative to future liabilities.

... R ...

Rate of Interest The charge made by a borrower to a lender for use of the latter's money, expressed as a percentage upon the principal and usually in terms of one year's charges - unless otherwise stated. Thus, if the interest rate is 5%, \$5 is paid for the annual use of \$100.

Real Interest Rate The nominal interest rate minus the rate of inflation.

Reciprocal Agreement An arrangement made between two employers such that an employee moving from one employer to the other may transfer their earned pension credits.

Registered Pension Plan (RPP) An employment pension that, on meeting the registration requirements of the applicable pension benefits legislation (either federal or provincial), has been accepted for registration under the Income Tax Act, thereby qualifying for favourable tax treatment.

Registered Retirement Income Fund (RRIF) An investment vehicle permitted under the Income Tax Act, which provides for a pay out of funds accumulated in an RRSP. Assets are withdrawn from the fund according to a prescribed formula whereby the assets are paid out in total in the year that the individual reaches 90 years of age. It provides an alternative for RRSP holders who do not want a life annuity.

Registered Retirement Savings Plan (RRSP) A personal retirement savings vehicle permitted under the Income Tax Act that allows tax sheltering by deferring tax on contributions and investment income until the savings are withdrawn as an annuity or RRIF.

Replacement Rate Amount of post-retirement income needed in relation to pre-retirement income, taking into account factors such as income tax, tax credits, expenses, etc.

Retirement Withdrawal from the active workforce because of age; but may also be used in the sense of permanent withdrawal from the labour force for any reason, including disability.

Retirement Allowance An amount paid by an employer to an employee (or former employee) upon retirement from office or service in recognition of long service or in respect of loss of office or employment.

Retirement Compensation Arrangement (RCA) An arrangement between an employer and employee(s) where contributions by the employer are used to pre-fund a retirement benefit in excess of the maximum pension benefit allowed by the Income Tax Act, generally used as stand alone or top-up pension for executives or other high income earners. These arrangements are not registered and not tax sheltered.

Risk Management A scientific approach to the problem of dealing with the pure risks facing an individual or an organization in which insurance is viewed as simply one of several approaches for dealing with such risks.

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Segregated Fund Assets of a pension plan held by an insurance company for investment management only. Funds are segregated from assets of the insurance company, and principal and interest are not guaranteed.

Shareholder Activism This is a way that shareholders (the members of pension plans) can collectively claim their power as pension fund owners to influence a corporation's behaviour on pension fund investment policies. Shareholder activism involves a whole range of approaches to influencing corporate behaviour ranging from writing letters, to drafting resolutions for annual meetings, to pulling shares – all in an attempt to hold corporations accountable.

Socially Responsible Investments Refers to adopting social or ethical goals in addition to the rate of return objective in pension fund investing. This can include investments that are otherwise equal to other investments when compared by traditional financial analysis but have favourable social or ethical characteristics; and may or may not include investments that carry a lesser rate of return and / or less liquidity but have more favourable social or ethical characteristics and / or create employment for plan members.

Solvency The ability of a pension plan to meet its present and future obligations.

Spouse's Allowance (SPA) An income tested supplemental benefit payable to the 60 to 64 year old spouse, widow or widower, of a recipient of the Old Age Security (OAS) pension.

Spouse's Benefit Payments to the surviving spouse of a deceased employee, usually in the form of a series of payments upon meeting certain requirements and usually terminating with the survivor's remarriage or death. (See Joint Life and Survivor.)

Stacked The pension formula of a defined benefit employment pension plan does not take the benefits payable by the CPP / QPP into account. Stacked plans will define the total benefits payable under the provisions of the employment pension plan and the CPP / QPP benefits will be added on top. (See Integrated.)

Surplus The amount, if any, by which the assets of a pension plan exceed the plan's estimated liabilities (that is, the value of the benefits earned) as determined by an actuary.

Survivor Benefit Any benefit payable to the surviving spouse or dependent of a pension plan member who dies.

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Tax Deferral Provision in the Income Tax Act whereby certain pension and similar contributions are tax deductible and employer contributions and

investment income are not included in a member's current taxable income; but benefit payments are considered income for tax purposes in the year in which they are received.

Termination Benefit Any benefit to which a member of a pension plan is entitled upon terminating membership in the plan for any reason other than death or retirement.

Termination of Plan See Wind-up.

Treasury bill (T-bill) Government of Canada T-bills are issued in denominations ranging from \$1,000 to \$1,000,000. New issues are sold by public tender at a discount. T-bills with terms to maturity of 3, 6 or 12 months are auctioned on a bi-weekly basis, typically on Tuesday for delivery on Thursday. From time to time, shorter-term cash management bills are also auctioned. The difference between the purchase price and the face amount represents the return to the investor.

Trust A legal entity that is created when a person or organization transfers assets to a trustee for the benefit of designated persons.

Trust Agreement An agreement setting out the duties and responsibilities of a trustee or trustees under a pension plan.

Trust Fund A fund whose assets are managed by a trustee or a board of trustees for the benefit of another party or parties. Restrictions as to what the trustee may invest the assets of the trust fund in are usually found in the trust instrument and in applicable state and federal laws.

Trustee A person, trust company or insurance company, who accepts the duties and responsibilities of holding legal title to and dealing with fund assets over which they have control for the benefit of other persons, in keeping with the terms of a trust agreement.

Trusteed Pension Plan A pension plan in which the employer's (and employee's) contributions to the plan are placed in a trust for investment and reinvestment, as distinguished from a plan in which the benefits are secured by life insurance.

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Unfunded Liability The value of all future liabilities of a pension plan, less plan assets, as determined by an actuary.

... V ...

Vesting This is an employee's right, on termination of employment before retirement, to the benefit that has accrued under the normal benefit for-

mula of a defined benefit plan or the accumulated contributions held on his / her behalf in a defined contribution plan, up to the date of termination of employment. The benefit is often payable as a deferred annuity commencing at normal retirement age. In other words, vesting enables a plan member to qualify for pension credits without remaining a plan member until retirement. Without vesting, plan members would only receive their own contributions plus interest when they change jobs. Required conditions for vesting are outlined in the plan document and must, at a minimum, meet the requirements of the applicable pension benefits legislation (either federal or provincial) which determines vesting by attainment of a certain age and / or completion of a specified period of service or plan membership.

••• **W** •••

Wind-up Discontinuance of an occupational pension plan either voluntarily or involuntarily, e.g. as in bankruptcy. Wind-up procedures including distribution of the assets are regulated by the applicable pension benefits legislation (either federal or provincial).

••• **Y** •••

Year's Basic Exemption (YBE) The minimum earnings from employment below which contributions cannot be made to the CPP / QPP during the year. The YBE was frozen at \$3,500 in 1998 and is not expected to be increased in the foreseeable future, as it was in the past.

Year's Maximum Pensionable Earnings (YMPE) The maximum earnings from employment on which CPP / QPP contributions and benefits are calculated. Often, referred to as the earnings ceiling. It is calculated each year according to a formula related to the average industrial wage. For the year 2008 the YMPE is \$44,900.00.