



University  
of Victoria

## WELCOME TO PENSION SERVICES

### GLOSSARY OF TERMS

Please follow the appropriate links below to find relevant definitions of regularly used pension terms.

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## A

### **Active member**

A plan member who is making regular contributions to the plan.

### **Actuarial equivalent**

A benefit of equivalent value when computed at the rate of interest and on the basis of the mortality or other tables.

### **Actuary**

A business professional who analyzes the financial consequences of risk. Actuaries use mathematics, statistics, and financial theory to study uncertain future events, especially those of concern to insurance and pension plans.

### **Actuarial Valuation**

An actuary prepares a plan valuation at least once every three years to assess the financial position of the pension plan. The valuation provides information on the adequacy of the employee and employer contribution rates; it is also to be used for filing purposes with the regulatory authorities, and for accounting purposes in the plan's financial statements.

### **Annual member statement**

A statement that is sent to plan members every year, and contains information about the member's status in the plan. For example, the information includes the member's accumulated contributions plus interest, early and normal retirement dates, and benefit earned to date. The statement also provides general information about the plan, including funding.

### **Annuity**

An annuity is a contract, where you deposit a lump sum of money, and the other party agrees to pay you a guaranteed income for a set period of time — or for the rest of your life. Annuities are most commonly used to generate retirement income.

## B

### **Basic Salary**

The amount of annual employee compensation on which pension contributions are based. In a defined benefit pension plan, the this amount salary is used to determine the highest average salary in the pension formula. If applicable, the Basic Salary is defined in the [Plan Document](#).

### **Beneficiary**

A person who, on the death of a plan member or pensioner, may become entitled to a [survivor benefit](#) under the plan.

- Under the *Pension Benefits Standards Act*, a [spouse](#) is automatically entitled to the survivor benefit unless they choose to waive that entitlement. If you do not have a spouse or beneficiary, survivor benefits will be paid to your estate.
- If you not have a spouse (or if your spouse has submitted a waiver), **primary** beneficiary(ies) can be appointed. An **alternate** beneficiary is entitled to benefits in the event that you no longer have a spouse or **primary** beneficiary.
- Under the *Income Tax Act*, a spouse can be appointed as **specified** beneficiary to allow variable benefit provisions to transfer to that beneficiary, for their lifetime.

### **Benefit**

Any form of payment that a member or beneficiary may become entitled to under the terms of the plan.

### **Benefit formula / Defined Benefit minimum formula**

The method for calculating the benefit or a [defined benefit minimum](#).

# C

## **Canada Pension Plan**

The Canada Pension Plan (CPP) provides contributors and their families with partial replacement of earnings in the case of retirement, disability or death. The CPP operates throughout Canada, except in Quebec, where the Québec Pension Plan (QPP) provides similar benefits.

Find out more: [www.canada.ca](http://www.canada.ca)

## **Commutated value**

The lump sum amount of money that needs to be set aside today, at current market interest rates, to provide enough funds to pay for a pension when a plan member retires. It is calculated by taking your age, current market interest rates, and other assumptions into account.

## **Consumer price index (CPI)**

A measure of the average price of consumer goods and services purchased by households. A consumer price index measures a price change for a constant market basket of goods and services from one period to the next. A pension plan is said to be “indexed” against the CPI if the benefits can be adjusted to bridge (maybe partially) any gap caused by the annual CPI increase.

## **Contributions**

Money paid into the pension plan by the member and employer. The contribution amounts are determined by a contribution rate, which is the percentage of salary that the member and employer pay into the pension plan. The member’s contributions are made through payroll deduction and are therefore reported on a member’s pay stub.

The contribution rate is defined in the [Plan Documents](#).

## **Credited service**

The time period you are credited with as being an active member of the pension plan, based on actual time worked. For example, if you work part-time at 75 per cent FTE, you would receive .75 years of credited service in a full year.

## D

### **Deferred pension**

A pension benefit that is not payable until a later date, either because the member has terminated employment prior to earliest retirement age, or because the member chooses to defer the pension.

### **Deferred retirement**

Retirement after normal retirement age.

### **Defined benefit pension plan**

A pension plan in which the benefit that the member receives is based on a set formula that is unrelated to the contributions made by the member or employer.

### **Defined contribution pension plan**

A pension plan that provides a pension based on contributions made by the member and employer, and by the investment earnings in the plan.

## E

### **Early retirement reductions**

Reductions applied to a pension because a member retires before being eligible for an unreduced pension under the terms of the [plan document](#).

### **Earliest retirement age**

The earliest age at which a member becomes eligible to receive a pension (if applicable, early retirement reductions may apply until normal retirement age).

## G

### **Guarantee period (or Guarantee term)**

A type of Single Life [survivor benefit](#) that can be selected at retirement.

Survivor benefits are paid to a spouse, beneficiary, or estate, upon a member's death.

With a Single Life Guarantee, the pension is paid for the member's lifetime, but if the member dies before the guarantee expires, the pension will be paid to the beneficiary for the remainder of the guarantee.

For example, if a member with a 10 year guarantee passes after 5 years, the beneficiary will continue to receive the pension for the 5 remaining years that are left on the guarantee (if the beneficiary is the estate, it will receive a lump-sum commuted value).

## I

### **Immediate pension**

A pension that becomes payable on the first of the month following the month in which a plan member retires.

### **Inactive plan member**

A plan member who has terminated employment and left their funds in the pension plan, in order to take a benefit at a later date.

### **Indexing**

Adjustments to benefits according to a formula that is based on the [Consumer Price Index](#).

## J

### **Joint life option**

A type of [survivor benefit](#) that can be selected at retirement.

The Joint Life option allows for a specified percentage of the pension to continue to the spouse for their lifetime following the death of the member.

For example, with a 60% Joint Life option, 100% of the pension is paid for the member's lifetime. Upon the member's death, 60% of the pension is paid for the surviving spouse's lifetime.

## L

### **Limited member**

The former spouse of a plan member who has been designated, as a result of marital breakdown, as a "limited member" and is entitled to a portion of the plan member's monthly pension benefits.

### **Locked-in**

Under pension legislation, refers to pension benefits that cannot be paid as cash, but must be used to provide a lifetime pension.

## M

### **Member**

A person who is contributing to the pension plan, who is not receiving benefits under the plan, or who has been a contributor but has not yet received benefits from the plan.

## N

### **Normal form of pension**

In a [defined benefit pension plan](#), the normal form of the pension is the basic form which is determined by a prescribed formula. All other forms of pension offered (early retirement options, survivor benefit options, etc) are calculated based on their value relative to the normal form; these are called [optional forms of pension](#).

### **Normal retirement age**

The age at which the member becomes entitled to retirement benefits with no reduction. This date is defined in the [Plan Document](#).

## O

### **Optional forms of pension**

In a [defined benefit pension plan](#), the optional forms of pension allow members to tailor the value of their pension payments in order to obtain various [survivor benefit](#) options. Generally, the longer the guarantee period and/or the greater the amount continuing to the survivor, the lower the member's monthly pension payment.

# P

## **Pension**

A type of employment benefit that provides a retirement income, usually in the form of periodic payments, to those who have become entitled to that benefit under the terms of a pension plan.

## **Pension adjustment (PA)**

A pension adjustment represents the value of the pension benefits you earned in the previous year from your pension plan. Canada Revenue Agency (CRA) uses the pension adjustment to calculate your RRSP contribution room, then reports this information to you on a Notice of Assessment.

## **Pensioner**

A retired member, beneficiary or limited member who is receiving a pension.

## **Plan Document**

A document that provides the terms and conditions of a pension plan; it describes the various rights and obligations of the parties, including a description of the eligibility rules, benefits available, contributions requirements, etc.

## **Plan sponsor**

Refers to a designated party, usually an employer, which sets up a retirement plan for the benefit of the organization's employees.

## S

### **Small benefit**

A pension benefit with a total value not exceeding 20 per cent of the Year's maximum pensionable earnings ([YMPE](#)) under the Canada Pension Plan. A small benefit may be released from the [locking-in](#) conditions imposed by the *Pension Benefits Standards Act*.

### **Spouse**

Defined in the *Pension Benefits Standards Act* as:

- persons who are married to each other, and who have not been living separate and apart from each other for a continuous period longer than 2 years  
OR
- persons who have been living with each other in a marriage-like relationship for a period of at least 2 years immediately preceding the date of transaction.

### **Survivor benefits**

Benefits payable under a pension plan to the surviving spouse, beneficiary, or estate of a deceased member or pensioner. Pension plans may offer various types of survivor benefits, either in the form of [guarantees](#) or a [joint life](#) options. Generally, the longer the guarantee period and/or the greater the amount continuing to the survivor, the lower the member's monthly pension payment.

## T

### **Termination**

For pension plans, termination refers to a member ending his/her active membership in the plan, normally as a result of ending the employment relationship. Terminated members no longer contribute to the plan; however, assets accumulated and/or benefits earned prior to termination are left on deposit for a future benefit.

## V

### **Vesting**

In a pension plan, vesting means entitlement. In British Columbia, all pension plan benefits are immediately vested: members are entitled to the benefits the moment they are earned.

## Y

### **Year's maximum pensionable earnings (YMPE)**

Maximum salary limit for [contributions](#) to the Canada Pension Plan, set by Canada Revenue Agency each year according to a formula based on average wage levels.