

**Release 4: Pension Terms and Definitions**

Our first three releases covered the basics of our pension status:

- How our pension works
- Our pension status and why we are looking at alternatives.
- Some possible future paths.

These releases came with a number of pension terms, many of which you may be unfamiliar with, since pension management often uses terms not encountered in normal conversation. This release is dedicated to defining many of these terms so you can understand what they mean and how they are used.

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**Accrual Rate:** In a defined benefit plan, a value used in the calculation of an employee's retirement benefit, defined by the pension plan agreement. A higher number results in a higher final pension benefit. Our current pension value is 2%, which is among the highest across pension plans in Canada. Other pension plans may use different values.

**Accrued Pension:** the amount you will receive at your normal retirement date in a defined pension plan such as OPSEU's, calculated via a benefit formula.

**Benefit Formula:** In a defined benefit pension plan, the calculation used to determine the amount of pension benefit received at retirement. OPSEU's pension uses the formula: *years of service x accrual rate (2%) x final average earnings*. Other pension plans may use different formulas.

**Bridge benefit:** Some pensions provide extra income for retired members before age 65.

**Canada Pension Plan (CPP):** a Canadian federal pension plan. All Canadian workers contribute to it via deduction from pay and can elect to receive this pension anytime between age 60 and 70. As of 2019 the maximum benefit is \$1,154.58/month, but most people don't receive the maximum. The benefit amount depends on several factors, and you can visit your My Service Canada account and obtain a CPP statement of contributions to see your personal CPP status.

**College of Applied Arts and Technology Pension Plan (CAAT):** an established plan that includes members from several OPSEU union locals. This is one of the plans that could be a future path for our pension.

**Consumer Price Index (CPI):** a value calculated by Statistics Canada that reflects changes in cost of living. The CPI is often used to calculate indexation of pension plans.

**Defined benefit pension plan:** The contribution is defined by the pension agreement, and the retirement benefit is defined by a formula that usually includes factors such as years of service, age, and working salary. Regardless of market performance, the retirement benefit is formula-defined, and the pension manager shoulders and market risk. Our current plan is of this type, as are all our likely future paths at present.

**Defined contribution pension plan:** the amount contributed to the pension is defined, but not the retirement benefit. Here the benefit is dependent on the amount contributed and the performance of the investment through the contribution period, and the employee shoulders any market risk. Currently none of our likely future paths lead to this type of plan.

**Employer Contribution:** In a jointly-sponsored pension plan, both the employer and employee contribute money to the pension plan. Currently Trent contributes 10.61% of each employee's salary to the plan. Other plans may describe different employer contribution rates.

**Funded Ratio:** a ratio of the market value of the pension investment / going concern liability, this provides a measure of the financial health of a pension plan. A funded ratio of 1 or greater indicates the plan has sufficient funds to pay out full benefits to everyone indefinitely. The OPSEU pension plan had a funded ratio of 0.95 as of July 2018.

**Going Concern Liability:** the amount of funds a pension plan is short as a result of a Going Concern calculation. A value of \$0 indicates a healthy plan, while larger values suggest the plan is not making ends meet- the plant's income is less than expenses. The current OPSEU plan had a going concern liability of \$17.3 million as of July 2018.

**Going Concern Valuation:** a method of calculating the financial situation of a pension plan, where the university and pension plan continue running indefinitely, pension plan contributions and benefit payments continue, and conservative assumptions are made regarding future salary increases, cost of living, retirement and mortality rates. OPSEU's pension plan is evaluated once per year using this method.

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**Guaranteed Income Supplement (GIS):** a monthly non-taxable benefit to OAS pension recipients who have low income and live in Canada. To be eligible a member's annual income has to be low; few OPSEU members will qualify for this. Visit this web page to read the GIS amounts and eligibility requirements:

<https://www.canada.ca/en/services/benefits/publicpensions/cpp/old-age-security/payments.html>

**Indexation:** refers to how the retirement benefit is adjusted each year, to compensate for cost of living increases. Some indexation calculations are based on the CPI.

**Jointly-Sponsored Pension Plan (JSPP):** In a jointly-sponsored pension plan, both the employer and employee contribute money to the pension plan. The current OPSEU pension plan is of this type, as are the possible future paths UPP and CAAT.

**Member Contribution Rate:** The amount of money contributed to the pension plan by an employee in the plan, typically defined as a percentage of salary. Currently OPSEU members contribute 9%, rising to 9.8% in July 2020.

**Normal Retirement Date (NRD):** a date near to when a member turns age 65, with the exact date determined by the pension agreement. For OPSEU's pension, it is the first of the month following the birthday, or the first of the month if that is the birthday date.

**Old Age Security (OAS):** a Canadian Federal income plan for Canadian residents 65 years of age and older who have lived in Canada for at least 10 years since age 18. As of March 2019 OAS was \$601.45/month. See this web page for more information: <https://www.canada.ca/en/services/benefits/publicpensions/cpp/old-age-security.html>.

**Ontario Pension Benefits Act (PBA):** provincial legislation that governs pensions in Ontario. This act has undergone changes in recent years requiring pensions to be solvent, which has led to Trent University having to pay monthly payments on the OPSEU solvency deficiency and going concern liability.

**Pensionable Service:** the number of years a member has contributed to the pension plan. This value can be affected by such factors as full-time vs. part-time, all year vs recurring, and opportunities to buy pensionable service (occurred for specific circumstances back when the OPSEU Local 365 union formed in 1993). Your OPSEU pension statement defines your years of pensionable service as of a specific date.

**Solvency Deficiency:** the amount of funds a pension plan is short as a result of a Solvency Valuation calculation. A value of \$0 indicates a healthy plan, while larger values suggest the plan is not making ends meet- the plan's income is less than expenses. The current OPSEU plan had a solvency deficiency of \$50.3 million as of July 2018.

**Solvency Ratio:** a ratio of the market value of the pension investment / solvency deficiency, this provides a measure of the financial health of a pension plan. A funded ratio of 1 or greater indicates the plan has sufficient funds to pay out full benefits to everyone if the company managing the plan ceased to operate. This is particularly useful in assessing the pension plans of private companies, because such companies could declare bankruptcy. The OPSEU pension plan had a solvency ratio of 0.72 as of July 2018.

**Solvency Valuation:** a method of calculating the financial situation of a pension plan, where the organization stops operating, no new money is invested in the pension, all benefits earned to date are paid up to the very last employee receiving their last pension benefit, and conservative assumptions are made regarding mortality rates and ages. OPSEU's pension plan is evaluated once per year using this method.

**University Pension Plan (UPP):** a new pension plan in development that is designed to hold the pensions of workers at universities. At present workers from three universities have ratified joining this plan (U of T, Queens, and Guelph), and it is currently planned to come on line in 2021. This is one of the plans that could be a future path for our pension.

**Unreduced Early Retirement Date:** a date near to when the member reaches an age when no additional early retirement penalties would be applied. For the current OPSEU pension, members pay an additional penalty for retiring before age 62 of 0.5% per month (6% per year). For example, a member with 25 years and retiring at age 60 would have earned  $2\% \times 25 = 50\%$  of their average salary, minus a 2 year  $\times -6\%/year$  penalty, resulting in  $50\% - 12\% = 38\%$  of their average salary for their retirement benefit.

**Yearly Maximum Pensionable Earnings (YMPE):** a value set by the Canada Pension Plan annually. It defines the maximum income on which to calculate contributions to the CPP. The YMPE often referenced in private pension calculations, to compensate for expected CPP income in addition to the private pension.