Financial Services
Commission
of Ontario

Your Pension Rights

A Guide for Members of Registered Pension Plans in Ontario

About the Financial Services Commission of Ontario

The Financial Services Commission of Ontario (FSCO) is an arm's-length agency of the Ontario Ministry of Finance, and is responsible for, among other things, the administration and enforcement of the Ontario *Pension Benefits Act* (PBA) and regulations.

FSCO:

- registers new pension plans and pension plan amendments;
- processes required filings by plan administrators;
- monitors the financial status of pension plans;
- administers the Pension Benefits Guarantee Fund (PBGF) and collects PBGF assessments;
- investigates alleged breaches of the PBA and regulations and takes enforcement action when required; and
- responds to inquiries and complaints from pension plan members.

For more information about our services, visit FSCO's website at www.fsco.gov.on.ca, or call our Contact Centre at:

Telephone:	(416) 250-7250
Toll-free:	1-800-668-0128
TTY:	(416) 590-7108
TTY toll-free:	1-800-387-0584

Canadian Association of Pension Supervisory Authorities

FSCO is the Ontario member of the Canadian Association of Pension Supervisory Authorities (CAPSA).

CAPSA is a national interjurisdictional association of pension supervisory authorities whose mission is to facilitate an efficient and effective pension regulatory system in Canada. CAPSA discusses pension regulatory issues of common interest and develops policies to further the simplification and harmonization of pension law across Canada.

For more information on CAPSA, visit the association's website at www.capsa-acor.org.

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Introduction

The retirement income system in Canada is a blend of mandatory and voluntary arrangements, and responsibility for the provision of retirement income is shared among governments, employers, unions and individuals. The three main sources of retirement income are:

- Publicly-administered pension arrangements – These include the federal Old Age Security Program (OAS), the Guaranteed Income Supplement (GIS) and the Canada Pension Plan (CPP), all administered by Social Development Canada (SDC), and the Quebec Pension Plan (QPP), administered by the Quebec Pension Board. In Ontario, there is also the Guaranteed Annual Income System (GAINS), administered by the Ontario Ministry of Finance.
- Employment pension plans – These plans are usually established by employers or through collective bargaining, and include registered pension plans (the subject of this brochure) and other types of retirement savings plans such as group Registered Retirement Savings Plans (RRSPs) and Deferred Profit Sharing Plans (DPSPs).
- Personal retirement savings – Personal savings may include tax-deferred arrangements such as RRSPs and Registered Retirement Income Funds (RRIFs) as well as other forms of savings.

This brochure deals with **registered pension plans**. There is no general requirement that employers provide pension plans for their employees, but once a pension plan is established, it must comply with federal tax law and the applicable federal or provincial pension legislation. Members of registered pension plans who work in Ontario are covered by the *Pension Benefits Act* (PBA) and regulations, unless they work in federally regulated industries such as banking, telecommunications or airline transportation (pension plans in those industries are covered by federal law, administered by the Office of the Superintendent of Financial Institutions). Ontario's PBA sets minimum standards for registered pension plans.

This brochure attempts to explain the minimum standards that apply to registered pension plans in Ontario. This brochure is not a legal document or a guide to the details of any particular pension plan. These plans vary in the benefits they provide to employees, and some offer more than what the minimum legal standards require. For details about your specific plan, please contact your plan administrator.

In a publication of this sort, it is difficult to avoid technical terms entirely. For your reference, a glossary of terms appears at the end.

Publicly-Administered Pension Arrangements (OAS, CPP, GAINS)

Old Age Security Program (OAS)

The OAS is a monthly pension that is paid to people who are age 65 or older and meet the residency and maximum income requirements. The Government of Canada also provides the Guaranteed Income Supplement (GIS), which is a family-income tested benefit that goes to low-income OAS pensioners. Allowance benefits are also available to low-income 60 to 64 year olds who are spouses or surviving spouses of GIS recipients.

Canada Pension Plan (CPP)

The CPP provides benefits to those individuals who contributed to the plan while they were working. The amount that is paid when an individual retires, or becomes disabled or dies, depends on how much and for how long that individual contributed to the CPP. The federal and provincial governments jointly manage the CPP, which operates in every province and territory except Quebec, which has a similar pension plan, the Quebec Pension Plan (QPP).

For more information about the OAS and CPP, visit the Social Development Canada (SDC) website at www.sdc.gc.ca, or call the SDC toll-free at:

1-800-277-9914 (English)
1-800-277-9915 (French)
1-800-255-4786 (TTY/ATS)

Ontario Guaranteed Annual Income System (GAINS)

If you are receiving an OAS pension and meet the Ontario residency and maximum income requirements, you may be eligible to receive an additional payment from GAINS, a program administered by the Ontario Ministry of Finance.

For more information about GAINS, visit the Ministry of Finance website at www.fin.gov.on.ca, or call the Ministry toll-free at:

1-800-263-7965 (English)
1-800-668-5821 (French)
1-800-263-7776 (TTY/ATS)

Registration of Pension Plans

When a pension plan is established, a number of documents are needed to create and support the plan. A plan text is prepared which describes, for example, who is eligible to join the plan and under what conditions, the rights and obligations of the members of the plan, the manner in which pension benefits will be calculated and how the pension plan is to be funded. There will also be trust agreements or insurance contracts related to the pension plan fund. The pension plan fund holds the assets of the pension plan.

The PBA requires that all pension plans be registered with FSCO and that all of the documents which create and support a pension plan be filed with FSCO when an application to register is made. An application must be made within 90 days of the establishment of a plan.

Types of Registered Pension Plans

Registered pension plans can be divided into two main types: defined benefit plans and defined contribution (or money purchase) plans. Some employers offer a combination of these two types of plans – often known as "hybrid" plans. It is important that you know which type of plan you have because this affects the kind of pension benefits you receive.

Defined benefit (DB) pension plans

In a DB pension plan, the pension benefit you receive at retirement is determined or "defined" by a formula that is usually based on your years of service and/or earnings. Different types of formulas can be used to calculate a member's benefit. The formula used in your plan should be described in the pension plan documents you receive when you are hired or become eligible to join the plan.

The most common types of benefit formulas used in DB plans are:

- Final (or best) average earnings formula – the benefit is normally based on the member's average earnings over the last (or highest paid) years of employment and total years of service. *For example: 1.5% of average earnings over the last 5 years of employment x total years of service.*
- Career average earnings formula – the benefit is normally based on the member's earnings over the entire period of plan membership. *For example: 1.5% of your total earnings.*
- Flat benefit – the benefit is normally based on a fixed dollar (or flat) amount for each year of service, regardless of the member's individual level of earnings. *For example: $40 per month per year of service.*

In addition to the basic benefit (that is, the amount determined by the formula), DB plans may provide additional benefits such as disability benefits, bridging benefits, indexation and plant closure benefits.

Defined contribution (DC) pension plans (also known as money purchase plans)

In a DC pension plan, it is the contribution rather than the benefit that is "defined". The employer regularly contributes a specified amount of money (usually a fixed percentage of your earnings) to an individual plan account that is set up in your name. Employee contributions (if required), any additional voluntary contributions (if allowed) and any interest or other investment earnings are also credited to this account.

If you are a member of a DC plan, you will not know the value of your pension until you retire because it will depend on a number of factors, including the amount of contributions made by your employer and by you, the investment earnings on those contributions and, if you purchase a life annuity with the money in your DC account, the annuity rates in effect when you retire. The annuity rates that are applied to purchase life annuities (or life pensions) are based on long-term interest rates.

Some DC plans allow members to make investment choices for their individual DC accounts, although the plan usually provides a limited number of options from which these choices can be made. In other DC plans, the plan administrator is responsible for the investment decisions. In all cases, the investments must comply with the rules set out in pension legislation and the federal *Income Tax Act*.

If your plan allows you to make investment choices, it is important that you make informed decisions, since these will affect the ultimate amount of your pension. The law does not set out the type of information and investment options you should receive, but at minimum your plan administrator should provide you with:

- sufficient information to make informed investment decisions;
- investment options that allow diversification; and
- regular statements that show how investments are performing.

DC plans are also called money purchase plans because the money in the account is usually used to purchase a life annuity at retirement. To obtain a life annuity, the money in your DC account is paid to an insurance company that guarantees the payment of a pension (usually in fixed monthly amounts) for your lifetime. Under Ontario's pension legislation, two special kinds of locked-in Registered Retirement Income Funds (RRIFs) are alternatives to the life annuity: Life Income Funds (LIFs) and Locked-in Retirement Income Funds (LRIFs).

Multi-Employer Pension Plans

Multi-employer pension plans (MEPPs) are a distinct type of registered pension plan that may be established by agreement (usually a collective agreement), statute or municipal bylaw. MEPPs allow two or more unrelated employers to contribute to a single pension plan fund and recognize a member's service with all of the participating employers when determining that member's pension benefits. MEPPs can be DB or DC or hybrid pension plans.

MEPPs are most often established in unionized industries, where individuals tend to move frequently among employers or are employed by a succession of small- to medium-sized businesses, for example, in the construction trades. In many cases, MEPPs are sponsored or administered by a trade union.

Typically, a collective agreement requires each participating employer to contribute a fixed amount to the pension fund based on the hours worked by each employee. Although a collective agreement can also establish the benefit level for members, it is usually the board of trustees administering the MEPP that determines the benefit level of the plan.

Most of the provisions outlined in this brochure apply to MEPPs. However, these plans differ in some significant ways from single-employer pension plans, and are subject to some special rules, including:

- A MEPP must usually be administered by a board of trustees and at least half of the trustees must be representatives of the plan members. In contrast, a single-employer pension plan is usually administered by the employer.
- Because employer contributions to a MEPP are usually set at a fixed amount, it is possible that the amount contributed by the employers will not be enough to provide the intended benefits. If this happens, the benefits may be reduced. In other words, if you are a member of a MEPP, your plan may be changed to reduce the pension benefits you have already earned or "accrued", or to reduce the amount of pension you are being paid. These types of changes, which apply to benefits already earned, are generally not permitted in single-employer pension plans. (In both MEPPs and single-employer pension plans, plans can be changed to reduce the pension benefits you will earn in future. See "Registration of Pension Plan Amendments".)
- The Pension Benefits Guarantee Fund (PBGF), which guarantees certain defined benefits in situations involving insolvency or bankruptcy, does not apply to MEPPs, so the benefits provided by a MEPP are not guaranteed by the PBGF.

Pension Plan Membership

An employer may establish a pension plan for all of its employees or just for certain groups or classes of employees. A class of employees is normally defined by the nature and terms of employment. For example, any of the following groups could make up a class of employees: salaried or hourly employees, unionized or non-unionized employees, supervisors, managers, executives, corporate officers or employees who work at a specific location or division. Once a pension plan is established for a group of employees, every employee in that class is eligible to join that plan.

A class cannot be made up of a specific or named individual. If an employer wants to provide pension benefits to a particular person, it can establish a separate single-member plan (often called an Individual Pension Plan, or IPP). However, a class can consist of only a few individuals if they make up a readily identifiable group, for example, vice-presidents of a corporation.

Employers can also establish separate pension plans for full-time and part-time employees. However, a plan established for part-time employees must provide benefits that are reasonably equivalent to those provided for full-time employees in the same class.

Employees must be provided with information that describes the pension plan, including their rights and obligations regarding the plan, within 60 days prior to their eligibility for membership in the plan or within 60 days of their hiring if plan membership begins immediately.

Mandatory vs. voluntary membership

Membership in a pension plan can be either mandatory or voluntary. If the plan is mandatory, you must join the plan – you cannot choose whether or not you want to be a plan member. If the plan is voluntary, you choose whether or not to join the plan. If you are eligible to join but decide not to, you still have the right to join at a later date if you decide to do so.

Eligibility conditions for plan membership

Your eligibility to join a pension plan is based on years of service (employment). Your age or gender cannot be a condition of eligibility.

If you are a full-time employee, you are entitled to join a pension plan after completing two years of continuous service.

If you are a part-time employee, you are entitled to join the plan once you:

- work 700 hours; or
- earn at least 35% of the Year's Maximum Pensionable Earnings (or YMPE, a term used in the CPP);

whichever is less, in each of the two consecutive calendar years before joining the plan.

However, your plan may allow you to join earlier. For example, a plan could allow full-time employees to become members immediately or after only one year of employment, or allow part-time employees to join after working only 500 hours in each of two prior consecutive years.

It should be noted, too, that once you meet the eligibility conditions and join the plan, you do not stop being a member of the plan just because your hours or earnings are reduced.

Eligibility for MEPP membership

The eligibility rules for MEPPs are somewhat different because the employees tend to move back and forth among the employers who participate in these plans.

Employees are entitled to join a MEPP once they:

- work a total of 700 hours for one or more of the participating employers; or
- earn a total of at least 35% of the YMPE with one or more of the participating employers;

whichever is less, in each of two consecutive calendar years before joining the plan.

Similar to single-employer plans, your MEPP may allow you to join earlier.

Pension Plan Contributions

Pension plans are either contributory or non-contributory.

In a contributory plan, both you and your employer must make contributions to the plan. Your member contributions are usually a percentage of your earnings, as described in the plan terms, and are normally made by payroll deduction.

In a non-contributory plan, only the employer is required to make contributions.

In some pension plans, you can also make additional voluntary contributions, which allow you to purchase additional pension benefits.

Contributions held in trust

The employer and member contributions to a registered pension plan, and the investment earnings on those contributions, must be held separate and apart from the assets of the employer. This is in order to protect the assets of the pension fund in the event the employer becomes insolvent or goes bankrupt. The pension fund is usually held by a trust company or insurance company.

Member contributions and interest earned

The law requires employers to deposit all member contributions, including money withheld by payroll deduction, into the pension fund within 30 days following the month the contributions were received or deducted.

In a DC plan, the interest earned on all member contributions (including additional voluntary contributions) must be at least the rate of return earned by the pension fund.

In a DB plan, the interest earned on required member contributions must be at least the average rate of five-year personal fixed-term chartered bank deposit rates; however, the plan can require that the rate of return earned by the pension fund be used instead. Any additional voluntary contributions made by members must earn the rate of return earned by the pension fund.

Employer contributions

In a DC plan, the amount that your employer must contribute is set out in the pension plan text, and is usually equal to a set percentage of your earnings. Your employer must pay these amounts into the pension fund each month.

In a DB plan, other than a MEPP established under a collective agreement or trust agreement, or a plan in which an employer's obligation to make contributions is limited to a fixed amount set out in a collective agreement, the amount that your employer contributes is not set out in the pension plan terms. Instead, the employer's contributions to the pension fund are based on predictions of what the accrued benefits will cost. An actuary estimates the cost by using actuarial assumptions about future salary levels, investment returns, when members will retire, mortality rates, etc. The actuary then prepares a funding valuation report that contains this information. This type of report must be filed with FSCO at least once every three years. If the actuary determines that there is not enough money in the pension fund to pay for the estimated cost of the accrued benefits, the law requires that the employer make up the difference with additional special payments until there is enough money in the fund.

Fifty per cent employer cost rule ("50% rule")

This rule applies to members of contributory DB pension plans who have vested pension benefits when they terminate employment, retire or die before retirement, or when their plan is wound up. Under this rule, the value of the contributions made by a member after December 31, 1986, plus interest, must not be greater than 50% of the commuted value of the pension or deferred pension accrued by that member after that date.

This does not mean that your employer must contribute the same amount as you into the pension fund, or that you are entitled to pension benefits that are worth twice as much as what you contributed. What the 50% rule does mean is that you are entitled to a refund, which is taxable, of any contributions you have made, plus interest, that exceed half of the commuted value of the pension benefits you accrued after December 31, 1986.

For example:

You were a member of a contributory pension plan from 2000 to 2004. When you left your job after four years of membership, the commuted value of your DB pension benefit was calculated to be $5,000. According to the 50% rule, the total of your member contributions, plus interest, should not be more than half of this amount – that is, $2,500. As it turned out, your contributions, plus interest, totalled $3,000, which was $500 more than 50% of the commuted value. Therefore, you were entitled to receive a refund of $500 in cash, which is taxable.

Vesting and Locking in of Pension Benefits

Vesting of pension benefits

When your pension benefits are vested, this means that you are unconditionally entitled to receive the pension benefits you have accrued under your plan as a result of satisfying age or service requirements.

In the case of a DC plan, being vested means you are entitled to receive a pension benefit equal to the value of the contributions your employer made on your behalf and your own contributions, if any, plus investment earnings. In the case of a DB plan, being vested means you are entitled to receive the pension benefits accrued according to the benefit formula.

Being vested does not mean you are entitled to the employer's contributions; it means you are entitled to the promised pension benefit (that is, the benefit you have accrued), consistent with the type of plan you have.

Although pension plans may have shorter vesting periods, Ontario's pension legislation sets out the maximum period of time that it can take for a member to become vested:

- For any benefits earned after 1986, you are vested once you complete two years of continuous membership in a plan (which includes any period of your membership before 1987).
- For any benefits accrued before 1987, you are vested if you are at least 45 years old and have worked or been part of the plan for 10 continuous years (which includes any period of your service or membership both before and after January 1, 1987).

If you leave a pension plan before your benefits are vested, you lose your right to any pension benefits under the plan. However, you are entitled to a refund, which is taxable, of any contributions you made, plus interest (but not to any contributions your employer made on your behalf).

Locking in of pension benefits

Once your pension benefits are vested, they are usually “locked in”. This means that the pension money payable to you is to be used only for the purpose of providing you with a lifetime retirement income. In other words, once your pension benefits are locked in, you normally cannot take the money out of the pension plan as a lump sum cash payment. If you leave the plan before you retire, you may be able to transfer the money from your plan – for example, to a LIRA or another pension plan – but the money remains locked in in order to provide you with a retirement income. These transfer (or portability) options are described below.

There are two significant advantages to having your benefits locked in. First, you will have a regular income at retirement. Second, creditors may not seize locked-in pension benefits.

There are some limited exceptions to the locking-in rule: for example, if you have a medical condition that is expected to shorten considerably your life expectancy. If the terms of your plan allow, you may also be able to unlock your pension money when you terminate employment if the commuted value of your benefit is small (2% or less of the YMPE in the year your employment ends).

If you have transferred your pension monies to a LIRA, LIF or LRIF, there are also limited circumstances in which you might gain special access to your locked-in money (see “Locked-in Retirement Savings Arrangements”).

In addition, the locking-in rule does not normally apply to any additional voluntary contributions you may have made.

Leaving a Job and Transfer Rights

When you terminate employment or membership in the pension plan, your plan administrator must provide you with a written statement within 30 days of the date of termination. This statement must include details about the benefits payable to you from the plan, the options you have and the deadlines for choosing an option. If you leave a pension plan before your benefits are vested, the statement must also set out any information related to the refund of any contributions you made, plus interest.

Transfer rights for vested members

If you are a vested member when your employment terminates, but you are not yet eligible for early retirement, you are entitled to leave your accrued pension benefits in the pension plan to provide for a deferred pension that is payable at retirement. You also have the option of transferring the commuted value of your pension benefits out of the plan.

If you are a vested member when your employment terminates, and you are eligible for early retirement under your plan (usually age 55), you cannot transfer the commuted value out of the plan unless your plan allows this or the plan is being wound up.

If you choose to transfer the commuted value out of the pension plan, it is important to note that the money transferred is still locked in and is to be used to provide retirement income. You will also have no further entitlement to pension benefits under the pension plan: for example, ad hoc benefit increases.

The commuted value of your deferred pension may be transferred to:

- another pension plan that agrees to accept the money;
- a LIRA, LIF or LRIF (see "Locked-in Retirement Savings Arrangements"); or
- an insurance company to purchase a life annuity that becomes payable at the time you would have been entitled to receive pension payments from your plan.

For some DB plans, there may not currently be enough money in the pension fund to pay the entire commuted value of your pension at the time you terminate employment. If that is the case, the transfer may be done in two steps. First, you would receive a portion of the commuted value that is based on the funded level of the pension plan. The balance owing to you, plus interest, would have to be transferred out of the plan's pension fund within five years of the initial partial transfer.

It should be noted, too, that federal tax law limits the amount of money that can be transferred on a tax-sheltered basis to a LIRA, LIF or LRIF. Money exceeding this limit must be paid to you in a non-locked-in form, such as cash, which is taxable.

Retirement Age (or Date)

Normal retirement age

In a pension plan, the normal retirement age or date is the time at which you become eligible to receive an unreduced pension. This age or date must be set out in your pension plan and can be no later than one year after you turn 65. This does not necessarily mean that you must retire at that time. The age at which you retire will depend on the terms of your employment and any applicable legislation.

Early retirement

If you are within 10 years of the normal retirement age and are entitled to a deferred pension, you have the right to retire and begin receiving a pension at any time within that 10-year period.

For example:

If the normal retirement age in your plan is age 60, you can choose to retire and start receiving your pension at any time between ages 50 and 60.

However, if you choose to retire early, the dollar value of your pension payments will normally be reduced because you will be receiving them over a longer period of time. The amount of reduction will be set out in your plan.

Some plans also offer early retirement “windows”, which are often used by employers to reduce the size of the workforce. An early retirement window offers eligible members a time-limited opportunity to retire early with benefit enhancements that would not otherwise be available: for example, bridging benefits. Eligibility is usually based on a combination of age and years of service.

Postponed retirement

If you postpone retirement and continue to work beyond the normal retirement age, you can either continue to accrue pension benefits under your pension plan or begin to receive pension payments from that plan. In other words, you cannot receive pension payments from a plan and, at the same time, continue to accrue benefits under the same plan.

If you choose to continue accruing benefits, you should note that the terms of your plan may include a maximum limit on the amount of the pension benefit or the number of years of membership or employment that can be taken into account in calculating the pension benefit. In addition, federal tax law requires that you start to receive your pension no later than the end of the calendar year in which you turn 69.

Pension income is taxable

Once you begin receiving your pension, the income is taxable.

Locked-in Retirement Savings Arrangements (LIRAs, LIFs, LRIFs)

In Ontario, there are three types of locked-in retirement savings arrangements:

- Locked-in Retirement Account (LIRA);
- Life Income Fund (LIF); and
- Locked-in Retirement Income Fund (LRIF).

Locked-in Retirement Account (LIRA)

A LIRA is basically a tax-assisted investment account that holds money transferred out of a pension plan. Often called a "locked-in RRSP", a LIRA is a type of RRSP that is subject to special rules under Ontario's pension law that normally prevent the money in the LIRA from being cashed out or "unlocked".

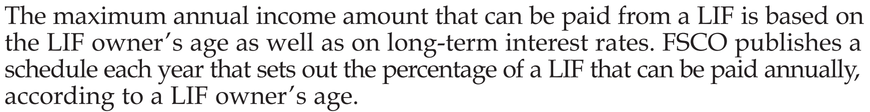
As with an RRSP, all monies must be transferred out of your LIRA before the end of the calendar year in which you turn age 69. This money can be transferred to a LIF or LRIF, to the pension fund of another pension plan (if that plan agrees) or to an insurance company to purchase an immediate or deferred life annuity.

Note that you cannot transfer the money out of your LIRA to a regular RRIF because the money would not be locked in. However, for purposes of the federal *Income Tax Act*, LIFs and LRIFs are the same as RRIFs. (LIF and LRIF are pension terms; RRIF is a tax term.)

Life Income Fund (LIF) and Locked-in Retirement Income Fund (LRIF)

LIFs and LRIFs are personal retirement income funds that are used to hold pension-related money and provide a regular flow of income when you retire. Similar to regular RRIFs, LIFs and LRIFs are regulated by the federal *Income Tax Act*, which sets the minimum amount that must be paid as annual income. However, because the monies in LIFs and LRIFs come from registered pension plans, additional rules apply, including:

- You need the written consent of your spouse to purchase a LIF or LRIF.
- You cannot receive income payments from a LIF or LRIF until the date that you would have been eligible to begin receiving pension payments under the original pension plan.
- There are maximum (as well as minimum) limits on the annual amounts that can be paid, which are intended to ensure you will have a regular income over your lifetime without the money running out.



The maximum annual income amount that can be paid from a LIF is based on the LIF owner's age as well as on long-term interest rates. FSCO publishes a schedule each year that sets out the percentage of a LIF that can be paid annually, according to a LIF owner's age.

The maximum annual income amount that can be paid from an LRIF is the greater of:

- the investment earnings of the fund in the previous year;
- the value of the assets in the fund, minus the difference between all amounts transferred into and out of the fund since it was established; and
- in the first two years of the fund, 6% of the value of the assets of the fund.

With an LRIF, if you choose to receive less than the maximum amount in any given year, the difference between the maximum and the amount you were actually paid can be added to the maximum amount in the following year. This option is not available in a LIF.

A LIF owner must purchase a life annuity with the balance remaining in the LIF by the end of the calendar year in which the owner turns 80. This annuity must be at least a joint and 60% survivor annuity unless the LIF owner's spouse has waived this right. There is no similar requirement for an LRIF owner.

Special Access to LIRAs, LIFs and LRIFs

Despite the restrictions described above, you may be able to gain special access to your Ontario LIRA, LIF or LRIF if:

- You have an illness or physical disability that is likely to shorten your life expectancy to less than two years;
- You are at least 55 years old and the total value of the monies in all of your Ontario LIRAs, LIFs and LRIFs is less than a specified amount ($17,480 in 2007);
- Your locked-in assets exceed federal *Income Tax Act* limits; or
- You are facing specific types of financial hardship that are set out in the PBA regulations.

For more information, please see FSCO's "A Guide to Applying for Special Access". The brochure is available on FSCO's website at www.fsco.gov.on.ca, or call our Contact Centre at: (416) 250-7250, Toll free: 1-800-668-0128, TTY toll-free: 1-800-387-0584.

Survivor Benefits

If you have a spouse when you retire

If you have a spouse when you retire, your pension must be paid as a joint and survivor pension unless you and your spouse waive this right. This allows your surviving spouse to receive a lifetime pension after your death that will be at least 60% of the monthly pension that was paid to you. Your surviving spouse would also continue to receive these payments if he or she later became the spouse of another person.

In a joint and survivor pension arrangement, the dollar amount of the monthly pension you would have received if you did not have a spouse may be reduced to fund the payments that will continue throughout your lifetime and that of your spouse. If your spouse dies before you, the pension will continue to be paid at the reduced amount.

Similarly, if you have the option of transferring the commuted value of your pension benefits out of your plan when you leave your employment and you want to purchase a life annuity, it must be at least a joint and 60% survivor annuity if you have a spouse at the time the annuity payments begin, unless you and your spouse waive this right.

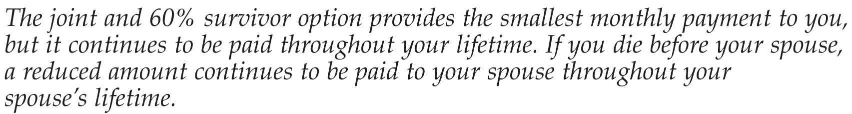
Consider the following example:

You and your spouse are reviewing your retirement statement and are faced with choosing one of the following options:

- *A single life annuity with no guarantee period that will pay you $1,000 per month.*
- *A single life annuity with a guarantee period of 10 years that will pay you $930 per month. If you die within 10 years after retirement, your spouse (or beneficiary) will receive the same monthly pension of $930 for the remainder of the 10-year period.*
- *A joint and 60% survivor annuity that will pay you $850 per month during your lifetime, and then $510 per month to your spouse, on your death, for the remainder of your spouse's lifetime. If your spouse dies before you, you continue to receive $850 per month.*

The single life annuity provides the largest monthly pension while you are alive, but offers no continuing income to your spouse if your spouse survives you.

The single life annuity guaranteed for 10 years is paid to you for your lifetime. If you live more than 10 years after retirement, the single life annuity continues to be paid until you die. If you die before the 10 years expire, your spouse (or beneficiary) continues to receive the monthly amount only for the remainder of the 10-year guaranteed term.



The joint and 60% survivor option provides the smallest monthly payment to you, but it continues to be paid throughout your lifetime. If you die before your spouse, a reduced amount continues to be paid to your spouse throughout your spouse's lifetime.

If you and your spouse want the first or second option, you must both waive entitlement to a joint and survivor pension (that is, the third option) by jointly signing a waiver form.

If you and your spouse decide to waive the joint and survivor pension benefit, you must give the plan administrator either a written waiver on the proper waiver form (FSCO - Pensions - Form 3) or a certified copy of a domestic contract such as a pre-nuptial or cohabitation agreement as defined by the Ontario *Family Law Act*. The waiver is effective only if it is submitted within the 12 months before the pension benefits begin to be paid. The waiver may also be jointly cancelled before the payments begin.

Before waiving the right to a joint and survivor pension benefit, both you and your spouse are encouraged to separately obtain independent legal advice about your individual rights and the effect of this waiver.

Please note that the requirement for a joint and survivor pension does not apply if you and your spouse are living separate and apart (in the legal sense) on the date your first pension payment is due.

If you die before retirement

Within 30 days of receiving notification of your death, the plan administrator must provide a death benefit statement to your spouse or other beneficiary. This statement describes your pension benefits, the options available to your surviving beneficiary and the deadlines for choosing options. If your beneficiary fails to choose a payment option within 90 days of receiving the statement, the plan administrator must pay the death benefit in the form of a pension.

If you had a spouse and were living with your spouse at the time of death, your spouse is automatically the beneficiary unless your spouse waives this entitlement in writing. If you did not have a spouse or were no longer living with your spouse, or your spouse waived the entitlement, then the death benefit is paid to your named beneficiary. If there is no named beneficiary, the benefit is paid to your estate.

The vested benefits you accrued after December 31, 1986, are payable as a death benefit to your beneficiary if you die before retirement. If the beneficiary is your spouse, he or she is entitled to receive either an immediate or deferred pension or a lump sum payment equal to the commuted value of your pension benefits. A beneficiary other than your spouse, or the estate if there is no named beneficiary, receives a lump sum payment equal to the commuted value.

Before January 1, 1987, the law did not require that the commuted value of vested benefits be paid as a death benefit, but your pension plan may provide otherwise. Unless your plan specifically provides for a death benefit, your beneficiary is not entitled to the benefits you accrued before this date, with one exception: if your plan is contributory, your beneficiary is entitled to a refund of any member contributions you made before January 1, 1987, plus interest. This refund is usually paid as a lump sum.

In DB plans, if you had a life insurance policy paid for by employer premiums, as provided for under your pension plan, then the lump sum amount payable to your beneficiary under the pension plan may be reduced.

Sale of Employer's Business

Employees are often concerned about how their pension benefits will be affected if they accept employment with (or "transfer to") a new employer that has purchased the business at which they work. For the most part, this will depend on whether the new employer provides the transferred employees with a pension plan.

If the new employer does not provide a pension plan

In many cases, a new employer will not provide a pension plan for transferred members unless there is a collective agreement requiring that a plan be provided and the employer is a successor employer under the Ontario *Labour Relations Act, 1995*. If the new employer does not provide a pension plan, the old employer will be responsible for the pension benefits you accrued to the date the business was sold, and the plan may be wound up.

If the new employer provides a pension plan

If the new employer provides a pension plan, the effect on your pension will depend on whether the new employer, under the terms of the sale of the business, assumes responsibility for the benefits you accrued under the old plan.

If a new employer assumes responsibility for the benefits accrued under the old plan, the corresponding assets will be transferred from the old plan into the new plan, subject to the review and consent of the Superintendent of Financial Services. If this happens, the new employer is responsible for the pension benefits you accrued both before and after the sale.

If the new employer does not assume responsibility for the accrued benefits, then the old employer will be responsible for the pension benefits accrued up to the date the business was sold. The new employer will be responsible only for benefits accrued after the date of sale. If this happens, you will have retirement income from two sources: the old employer's plan and the new employer's plan.

Employment not terminated for purpose of pension benefits

When a business is sold and you transfer from an old plan to a new plan, regardless of who is responsible for the benefits under the old plan, your employment is deemed not to have terminated for the purpose of the pension plan. In other words, when determining your eligibility for pension plan membership, vesting and the payment of benefits, the period of membership in your new employer's pension plan is continuous and includes the time you were a member in the old employer's plan. This also means that you are not entitled to any transfer rights related to the pension benefits you accrued under the old plan.

For example:

You worked for ABC Company and were a member of the ABC pension plan for one year when the business was sold to XYZ Company. You accepted employment with XYZ, which has a pension plan for its employees. For the purpose of the XYZ pension plan, your employment with ABC is deemed not to have terminated. What this means is that you will meet the two-year vesting requirement for the XYZ pension plan after only one year of membership in the XYZ plan (that is, 1 year with ABC plus 1 year with XYZ = 2 years). This will be the case whether or not XYZ assumes responsibility for the benefits accrued under the old ABC plan.

Similarly, if ABC remains responsible for the benefits you accrued under the ABC plan, your service and pension plan membership at XYZ will be used to determine your eligibility for vesting and benefits under the ABC plan. Therefore, after one year in the XYZ pension plan, you would also meet the two-year vesting requirement for the ABC plan. Again, this is because your employment with ABC is deemed not to have terminated for the purpose of the pension plan.

Wind up (or Partial Wind up) of a Pension Plan

A wind up occurs when a pension plan is terminated or discontinued, in whole or in part, usually at the decision of the employer. This most often occurs as a result of a downsizing or re-structuring where the employment of a significant number of active plan members is terminated, when a business or part of a business is shut down or when an employer becomes insolvent or bankrupt. However, depending on the circumstances, an employer can simply decide to discontinue a pension plan.

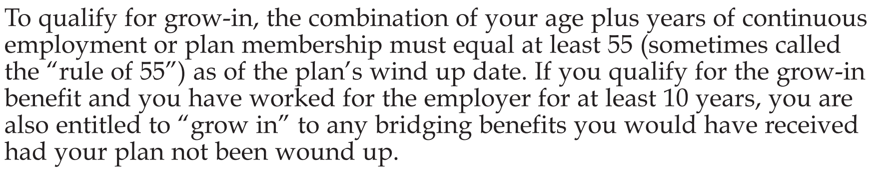
In some situations, the Superintendent of Financial Services may order that a plan be wound up, in whole or in part.

Vesting on wind up

The wind up date (that is, the date the wind up of the plan comes into effect) is usually determined by the employer. On this date, all members affected by the wind up become fully vested, even if they have not been plan members for two years. All affected members also stop accruing benefits under the plan, even though they may continue to work for the employer if it remains in business.

Enhanced benefit ("grow-in") for older or long-service workers

If your plan provides enhanced early retirement benefits – for example, an unreduced early retirement pension – you may be entitled to the value of these enhanced benefits even though you do not meet the age or service requirements as of the date your plan winds up. This is often referred to as the "grow-in" right or benefit, because the PBA allows older or long-service members who meet certain requirements to "grow in" to the enhanced early retirement benefits they would have received if their plan had not been wound up.



To qualify for grow-in, the combination of your age plus years of continuous employment or plan membership must equal at least 55 (sometimes called the “rule of 55”) as of the plan’s wind up date. If you qualify for the grow-in benefit and you have worked for the employer for at least 10 years, you are also entitled to “grow in” to any bridging benefits you would have received had your plan not been wound up.

The purpose of grow-in is to provide an enhanced level of retirement income security to older or long-service members affected by a wind up, since as a group they are more likely to face greater difficulties in finding new jobs or acquiring new skills when their employment ends.

For example:

You are 45 years old and have 20 years of service with the employer at the time your pension plan is wound up. The normal retirement age in your plan is 65, that is, the date you would normally be entitled to an unreduced pension. However, your plan also has enhanced early retirement benefits that allow you to retire with an unreduced pension when your age and years of service equal 85 (“factor 85”). If your plan had not been wound up, you would have been able to retire with an unreduced pension at age 55, by which time you would have had 30 years of service.

So how does grow-in affect you in this situation?

You qualify for grow-in because your combined age and service at the wind up date meets the “rule of 55”. Therefore, you are entitled to be paid an unreduced pension when you reach age 55. The amount you receive, however, will be based on the pension benefits you accrued up to the wind up date (that is, you are not credited with actual additional years of service in the calculation of your pension benefit entitlement).

If the PBA did not provide for grow-in, you would not receive an unreduced pension before you reached age 65 because you were not able to satisfy the conditions (that is, factor 85) required for enhanced early retirement at the time the plan was wound up.

Transfer rights

If you are a member of a plan that is being wound up, you have the same transfer rights as a member whose employment is terminated under normal circumstances, even if you have reached early retirement age (see “Leaving a Job and Transfer Rights”).

Pension Benefits Guarantee Fund (PBGF)

Sometimes an employer with a DB plan becomes insolvent or bankrupt, and there is not enough money in the pension fund to pay the pension benefits that were promised. In this situation, the business often has no other source of funds to pay the shortfall. When a plan is wound up in these circumstances, the PBGF guarantees payment of certain defined benefits in Ontario, subject to a number of limitations.

The PBGF does not cover:

- benefits provided by MEPPs;
- benefits in excess of $1,000 per month;
- benefits payable under a plan that is less than three years old;
- any benefit improvements that came into effect in the previous three years;
- certain types of special benefits, such as plant closure benefits;
- benefits provided by pension plans where an employer's obligation to contribute is limited to a fixed amount set out in a collective agreement;
- DC plan benefits;
- certain public sector pension plans; or
- benefits provided by plans referred to as "designated" plans under the federal *Income Tax Act*.

For example:

Your former employer is bankrupt, and the pension plan has only 70% of the assets needed to cover all of the benefits payable. Your plan is covered by the PBGF, and your pension entitlement is $1,500 per month. The PBGF would guarantee the first $1,000 of your pension benefits, of which 70% (or $700) would be paid out of the plan fund while the other $300 would be funded by the PBGF. The remaining $500 (of your original $1,500 per month entitlement) would also be funded at 70% out of the plan fund but without any PBGF top-up. Therefore, your monthly pension would amount to $1,350. If the PBGF did not exist, your monthly pension would be $1,050.

The PBGF is funded by the employers who sponsor DB plans that are eligible for this coverage. These plan sponsors pay annual assessments to the PBGF, based on the number of members in the pension plan and the plan's financial status. The PBGF is the only guarantee fund of its kind in Canada.

Pension Plan Administrator

Every pension plan must have a plan administrator. The plan administrator is usually the employer that established the plan. However, the administrator may also be a board of trustees (in some cases, such as for a MEPP, with at least half of the trustees being member representatives), a pension committee (which must include member representatives), an insurance company (if it guarantees all benefits of the plan) or a special body authorized by an Act of the Legislature.

The administrator is responsible for the administration of the pension plan and the administration and investment of the pension fund. The administrator may hire a third party to manage the plan or its investments, but in such cases, the administrator remains responsible for supervising the work and ensuring that the work is done. The administrator has a duty of care and stands in a fiduciary relationship to the plan members, former members and others entitled to benefits under the plan. The agents of the administrator, whether employees or third parties, are subject to the same duty of care as the administrator.

The administrator must ensure that the pension plan and pension fund are administered in accordance with the law and the provisions of the plan. Among other things, the administrator is responsible for applying to register the pension plan and any amendments with FSCO, and communicating with plan members, former members and others entitled to benefits under the plan.

Registration of Pension Plan Amendments

Applications to register amendments must be filed with FSCO by the administrator within 60 days after the plan is amended.

In the case of “adverse” amendments, the administrator must normally give written notice to all affected members and other persons, and their trade unions (if applicable), before the amendment is registered.
An adverse amendment is one that:

- reduces the pension benefits that accrue after the amendment comes into effect; or
- adversely affects the rights or obligations of members or other persons entitled to payments from the fund.

For example, a change to the defined benefit formula in your plan that reduces the amount of the benefit you can accrue in future is an adverse amendment. In this case, the plan administrator would have to notify you (and others who are affected) of the amendment, provide you with an explanation and invite you to submit comments to the administrator and to FSCO before the amendment can be registered by FSCO. However, FSCO cannot refuse to register an adverse amendment if proper notice is given and it otherwise complies with the law.

Amendments to a plan (known as "void amendments") cannot reduce:

- the amount of pension benefits already accrued;
- the commuted value of pension benefits already accrued; or
- a pension already being paid.

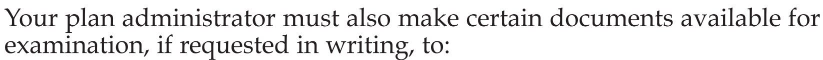
However, these "void amendment" prohibitions do not apply in the case of a MEPP that is established by a collective agreement or trust agreement or a DB plan where an employer's obligation to make contributions is limited to a fixed amount set out in a collective agreement.

Information Rights for Pension Plan Members and Others

Members and former members are entitled to information about their pension plan, as it applies to them, and the plan administrator has a duty to provide this information in a timely manner (also see "Member Inquiries").

Your plan administrator must provide:

- a written explanation of the pension plan to employees within 60 days of their eligibility for membership or their hiring (if plan membership begins immediately);
- an annual statement to members within six months of the plan's year-end;
- a retirement statement to members within 30 days of retirement (and a description of their retirement options at least 60 days before retirement);
- a termination statement to members within 30 days of their employment termination; and
- a death benefit statement to the surviving spouse, designated beneficiary or estate within 30 days of notice of death.



Your plan administrator must also make certain documents available for examination, if requested in writing, to:

- a member or former member;
- the spouse of a member or former member;
- any other person entitled to benefits under the plan;
- a representative of a trade union that represents members of the plan;
- an employer that participates in the plan;
- a person required to make contributions on behalf of an employer; or
- an agent of any of the above, if authorized in writing.

These documents include:

- the current plan text, including any plan amendments;
- any documents related to the pension plan that must be filed in support of an application for registration of the plan and any amendments, such as a trust agreement;
- annual information returns;
- financial statements regarding the pension plan or pension fund;
- actuarial funding reports;
- documents delegating administration of the pension plan or fund;
- correspondence between the plan administrator and FSCO within five years before the date of the request;
- any statement of investment policies and procedures (SIPP); and
- those parts of an agreement concerning the purchase or sale of a business or the assets of a business that relate to the plan.

The person or party making the request is not entitled to examine these documents more than once in a calendar year. The documents must be made available to members and former members at the place they are or were employed or, to any person or party entitled to information, at a mutually agreed upon place. If copies of documents are requested, the administrator can charge a reasonable fee for photocopies.

Pension plan documents that are filed with FSCO can also be inspected by the plan administrator or the parties listed above at FSCO's offices, by appointment, and photocopied for a fee. If you would like to make an appointment to inspect your plan documents, please contact FSCO's Pension Plans Branch at (416) 250-7250.

Pension Plan Advisory Committee

Members and former members of a plan can establish a pension plan advisory committee by a majority vote. Each class of employees covered by the pension plan is entitled to at least one representative on the committee. Former members are also entitled to appoint one representative.

The purpose of an advisory committee is to monitor the pension plan and make recommendations on its administration, although these need not be accepted by the plan administrator. The committee also promotes awareness and understanding of the plan. In order to do this, the advisory committee (or its representative) has the right to examine the records of the administrator relating to the pension plan and pension fund, but not personal information contained in those records.

Other Legislation Affecting Pension Benefits

The rights of pension plan members and former members can be affected by legislation other than the PBA.

Income Tax Act (Canada)

The federal *Income Tax Act* encourages employers to establish registered pension plans by making the contributions to those plans tax-deductible and the investment income tax-exempt, up to specified maximum limits. The federal *Income Tax Act* also requires employers to report a Pension Adjustment (PA) on the T4 slips issued to employees who are plan members.

A PA is the assumed value of the benefits earned in a registered pension plan in that year. For a DC plan member, the PA is simply the total of the employer and member contributions for the year, plus any additional voluntary contributions. For a DB plan member, the PA is based on a formula set out in the federal tax regulations. The amount of a PA reduces the RRSP contribution room you have available that year.

For any questions about the calculation of your PA, please contact your employer; for any questions about RRSP contributions, please contact the Canada Revenue Agency.

It should also be noted that any monies payable from a registered pension plan are taxable.

Ontario *Employment Standards Act, 2000* (ESA)

Plan members on pregnancy or parental leave, family medical leave or emergency leave, as defined by the ESA, continue to participate in the pension plan unless they:

- elect in writing not to do so; or
- the plan is contributory and the member declines to pay his or her contributions during the leave period.

The ESA also requires an employer to continue making contributions to a pension plan on behalf of a member during the statutory termination notice period.

Ontario *Workplace Safety and Insurance Act, 1997*

When a plan member is absent from work as the result of a workplace injury, the employer must continue making contributions to the pension plan during the first year of the absence, unless the plan is contributory and the member declines to pay his or her contributions during the absence. There may be exceptions in the case of a MEPP.

Ontario *Family Law Act* (FLA)

Under the FLA, pensions are family property and can be divided along with other family assets in the event of marriage breakdown.

Pension Splitting on Marriage Breakdown

In the event of marriage breakdown, the PBA permits the division of pension assets by domestic contract or court order under the FLA, subject to certain restrictions. The former spouse of a pension plan member cannot gain access to the member's pension benefits until the member is entitled to receive benefits or reaches the normal retirement date, whichever comes first. The former spouse can receive no more than 50% of the pension benefits accrued by the plan member while the two were spouses.

A plan administrator who receives a copy of the domestic contract or court order must provide the former spouse with written notice of the member's termination of employment, a copy of the member's termination statement and the options available to the former spouse. The options available to the former spouse are the same as those offered to the member.

If a marriage breaks down after a member has already transferred the commuted value of the pension benefits out of the plan or has begun to receive pension payments, an immediate assignment of pension credits between the parties can be made. Any amount transferred to the non-member spouse continues to be locked in.

The PBA does not specify how a pension is to be valued when pension assets are divided on marriage breakdown. Valuation principles have been established in a number of court decisions.

Member Inquiries

A pension plan administrator has a duty and an obligation to answer questions from pension plan members and others entitled to benefits under the plan. The checklist below (see “Know the Facts”) gives some examples of questions you may want to ask your plan administrator.

If you have a question or concern about your pension plan that is not covered by your plan’s pension booklet, you should contact your plan administrator. It is often a good idea to contact your administrator in writing and ask that you receive a written reply. The plan administrator should answer you within 30 days of receiving your inquiry. If you have a complaint or concern that you are not able to resolve with your plan administrator, you may write FSCO for assistance at:

Pension Plans Branch
Financial Services Commission of Ontario
5160 Yonge Street, Box 85
Toronto, ON M2N 6L9

When you write FSCO, please set out the question or the nature of the problem and include all relevant facts and documents, including the name of your employer, the name and registration number of your pension plan and copies of any correspondence between you and your plan administrator about the complaint or concern. Our objective in assisting you in this situation is to ensure that the plan is being administered in compliance with the PBA and regulations and the pension plan documents.

In order for us to move a complaint forward, we must often share this material with the plan administrator. Under the PBA and privacy legislation, we need your consent to do this. Therefore, we suggest that you provide us with this consent in your letter to us, noting any limits on the sharing of this material.

FSCO does not keep personal data about individual pension plan members, so we are not able to answer questions about the details of your individual benefits and entitlements. That is the plan administrator’s responsibility. Your annual pension statement, as well as the pension plan booklet, should include most of the information relevant to your accrued benefits and entitlements.

FSCO's Pension Plan Information Access

Pension Plan Information Access is available on FSCO's website and provides the following information about most Ontario-registered pension plans:

- the plan registration number;
- the plan name;
- the corporate name and address of the plan sponsor, plan administrator and pension fund custodian;
- the effective date, fiscal year end, plan type, benefit type and total active membership of the plan;
- the FSCO staff member assigned to the plan; and
- information about selected transactions and filings.

To search for information on a particular pension plan, visit our website at www.fsco.gov.on.ca.

Know the Facts

It is important for you to have all the facts about your pension plan so that you can make informed financial decisions. Here are some sample questions or issues you may want to address.

- Am I eligible to join the pension plan? When? Can I join if I work part-time?
- Do I have to join the plan?
- What is the name of the pension plan?
- What is the plan's registration number, and where is the plan registered?
- Are there any brochures or other materials that describe the plan?
- What type of plan do I belong to?
- Do I have to contribute to the plan? Can I contribute more if I want to?
- How much does my employer contribute?
- When will I receive my annual pension statement?
- When will my pension be vested?
- What happens if I leave my job before I retire?
- What happens if I die before I retire?
- When happens when I die after I retire?
- What is the normal retirement date under the plan? At what age can I retire early?
- Will my pension be reduced if I retire early?
- What happens to my pension if I continue to work after the normal retirement date?
- What happens if I become disabled before I retire?
- What happens if I become terminally ill?
- How is my pension calculated? Is it indexed?
- Will my benefits be reduced when I receive Canada Pension Plan benefits?
- How do I name or change a beneficiary?

- Where can I see the pension plan documents?
- When will I be told if the plan is amended?
- Does the employer offer any sessions on retirement financial planning?
- What happens if my employer's business has been sold?
- What happens if my employer has gone out of business?
- Can I select the investments for my DC pension account?
- Do I have a say in how the plan is administered?
- What is the financial position of the plan?

Questions About Personal Financial Matters

There are some questions that only you can answer. Neither FSCO nor your plan administrator can make personal financial decisions for you.

For example:

- I terminated my employment and have been offered options regarding my benefits. Should I choose a deferred pension or transfer the money out of the plan?
- My employer has offered me an early retirement window. Should I take it?
- I'm retiring at the end of the year. Should my spouse and I choose a joint and survivor annuity or a single life annuity?
- I don't have a spouse. Whom should I name as my beneficiary?
- My workplace pension plan is being wound up, and there's a surplus sharing agreement. Should I consent to it?

For these types of questions, you are encouraged to seek expert advice from, for example, a financial planning consultant, lawyer, actuary or accountant.

Glossary of Pension Terms

The following terms are explained for the purpose of this brochure, "Your Pension Rights".

ACCRUED / EARNED PENSION (ACCRUED / EARNED BENEFITS) – Amount of pension (or pension benefits) credited to a plan according to an individual's service, earnings, etc., up to a given date.

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 plan benefits. In Canada, a person must be a member of the Canadian Institute of Actuaries (CIA) to be recognized as a professional actuary.

ADMINISTRATOR – The person or persons responsible for managing the pension plan and the pension fund. In most cases, the employer is the plan administrator (although the employer may hire a third party to administer the plan on its behalf), but the plan administrator can also be a board of trustees, a pension committee, an insurance company or some other body established by law.

BRIDGING BENEFIT – A temporary benefit provided to individuals who retire before they are entitled to receive Canada Pension Plan (CPP), Quebec Pension Plan (QPP) or Old Age Security (OAS) retirement benefits.

COMMUTED VALUE – The amount of a lump sum payment payable today that is estimated to be equal in value to a future series of pension payments.

CONTINUOUS EMPLOYMENT OR MEMBERSHIP OR SERVICE – The period during which an employee is continuously employed by the same employer or continuously participates in that employer's pension plan, including periods of temporary absence or suspension or periods of layoff. May include service with an associated or former employer. To be distinguished from credited service.

CONTRIBUTORY PLAN – A pension plan that requires members to make contributions, normally by payroll deduction.

CREDITED SERVICE – The length of service used in a pension plan formula to calculate a defined benefit.

DEFERRED PENSION – A pension that is determined when a member's employment or plan terminates, but which is not payable until some later date, usually at the member's normal or early retirement age.

DEFINED BENEFIT (DB) PLAN – A pension plan that defines the pension benefit to be provided (based on years of service, earnings, etc.). May be contributory or non-contributory.

DEFINED CONTRIBUTION (DC) PLAN – A pension plan that defines the amount of contributions (including required member contributions, if any) to the pension plan. The value of the pension benefits a member will receive on retirement is calculated at that time and is based on the accumulated contributions and the investment return on those contributions allocated to the individual's account. Also known as a money purchase plan.

FORMER MEMBER – A person who has terminated employment or membership in a pension plan and is entitled to a deferred pension under the plan or is being paid a pension.

GUARANTEED LIFE ANNUITY – A life annuity that will be paid for the lifetime of a person or for a certain period, whichever is longer, but in any event for a minimum period. For example, if a person who owns an annuity with a 10-year guarantee dies after eight years, payments will continue to be made to a beneficiary or the estate for two years.

JOINT AND SURVIVOR PENSION OR ANNUITY – A pension or life annuity payable until the death of the retired plan member, and then to the surviving spouse until his or her death. This must be provided as an option when a member terminates employment. Payments to the survivor are often reduced by 40% after the member's death.

LIF – See **Life Income Fund**.

LIFE ANNUITY – In the pension context, periodic payments (usually monthly) provided by the terms of a contract that will be paid for the lifetime of a person (the annuitant), or the person and his or her designated beneficiary. Annuities are normally purchased from insurance companies.

LIFE INCOME FUND (LIF) – A particular form of Registered Retirement Income Fund (RRIF) offered by financial institutions. A LIF may be purchased with money transferred out of a pension plan when a member terminates employment. A LIF is used to provide a regular retirement income and is subject to minimum and maximum annual income payment limits. LIFs are governed by the PBA and the federal *Income Tax Act*.

LIRA – See **Locked-in Retirement Account**.

LOCKED-IN RETIREMENT ACCOUNT (LIRA) – A particular form of a Registered Retirement Savings Plan (RRSP) offered by financial institutions. A LIRA is used to hold money that is transferred out of a pension plan when a member terminates employment. LIRAs are governed by the PBA and the federal *Income Tax Act*. Often referred to as a "locked-in RRSP."

LOCKED-IN RETIREMENT INCOME FUND (LRIF) – Similar to a LIF, a particular form of RRIF offered by financial institutions. An LRIF may be purchased with money transferred out of a pension plan when a member terminates employment. An LRIF is used to provide a regular retirement income and is subject to minimum and maximum annual income payment limits. LRIFs are governed by the PBA and the federal *Income Tax Act*.

LOCKING IN – A legislative requirement that vested pension benefits be used only for the purpose of providing a retirement income. Also applies to LIFs, LIRAs and LRIFs.

LRIF – See **Locked-in Retirement Income Fund**.

MEMBER – An employee on whose behalf an employer is required to make contributions to a pension fund and who has not terminated membership in the pension plan or started to receive pension payments. Also known as an "active member".

MONEY PURCHASE PLAN – See **Defined Contribution (DC) Plan**.

NON-CONTRIBUTORY PLAN – A pension plan in which all required contributions are made only by the employer.

NORMAL RETIREMENT AGE OR DATE – The age or date at which a member is entitled to an unreduced pension.

PBA – See ***Pension Benefits Act***.

PBGF – See **Pension Benefits Guarantee Fund**.

PENSION – Generally, periodic payments that provide a regular retirement income for the lifetime of a person who is entitled to benefits under the terms of a pension plan.

PENSION ADJUSTMENT (PA) – An amount calculated each calendar year under the federal *Income Tax Act* that is used to determine an individual's maximum annual RRSP contribution. The adjustment reduces the allowable annual RRSP contribution room by taking into account the assumed value of any pension benefits earned or contributions made under a registered pension plan during the previous year. For DC plans, the PA is the total of all employer and employee contributions for the year. For DB plans, the PA is determined by a formula under the federal tax regulations.

PENSION BENEFITS ACT (PBA) – The Ontario legislation that establishes minimum standards for registered pension plans.

PENSION BENEFITS GUARANTEE FUND (PBGF) – A fund established under the PBA, and to which employers contribute, that guarantees specified defined benefits when an employer is insolvent or bankrupt and is unable to fund all of the pension benefits owed when a plan is wound up.

REGISTERED PENSION PLAN – A plan organized and administered to provide pensions for employees, which is regulated by the PBA, and to which an employer is required to make contributions. Does not include government programs such as the Canada Pension Plan (CPP), Quebec Pension Plan (QPP) or Old Age Security (OAS) Program.

REGISTERED RETIREMENT INCOME FUND (RRIF) – A personal retirement income fund offered by financial institutions. A RRIF is used to provide an ongoing minimum flow of income and is subject to minimum annual income payment limits. RRIFs are governed by the federal *Income Tax Act*. In Ontario, money cannot be transferred from a registered pension plan to a regular unlocked RRIF.

REGISTERED RETIREMENT SAVINGS PLAN (RRSP) – A personal retirement savings plan offered by financial institutions. RRSP contributions can be deducted from an individual's taxable income, up to a specified amount. RRSPs are governed by the federal *Income Tax Act*. In Ontario, money cannot be transferred from a registered pension plan to a regular unlocked RRSP.

RRIF – See **Registered Retirement Income Fund**.

RRSP – See **Registered Retirement Savings Plan**.

SPOUSE – Either of two persons who are married to each other; or who are not married to each other but have been living together either in:

- a conjugal relationship continuously for a period of at least three years; or
- a conjugal relationship of some permanence and are the natural or adoptive parents of a child, both as defined in the Ontario *Family Law Act*.

VESTED BENEFITS (VESTING) – Benefits to which a pension plan member or former member is entitled unconditionally under a pension plan as a result of satisfying age or service requirements.

WIND UP / PARTIAL WIND UP – Termination or discontinuation of all or part of a pension plan, usually at the decision of the employer. Often results from bankruptcy, corporate restructuring or downsizing.

YEAR'S MAXIMUM PENSIONABLE EARNINGS (YMPE) – A term used in the Canada Pension Plan that refers to the earnings on which CPP and QPP contributions and benefits are calculated. The YMPE is re-calculated each year according to a formula based on average wage levels. The YMPE is published annually by the Bank of Canada.

YMPE – See **Year's Maximum Pensionable Earnings**.

Remember to visit FSCO's website at www.fsco.gov.on.ca for more information on:

- pensions;
- applying for special access to money in LIRAs, LIFs and LRIFs;
- automobile insurance;
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- how to file a complaint against your insurance company;
- FSCO's dispute resolution services; and
- important consumer tips.

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