



SECTION: Gradual and Uniform

INDEX NO.: G100-700

TITLE: Benefit Accrual - Application to MEPPs
- PBA s. 11(1)

APPROVED BY: Superintendent of Financial Services

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See also G100-701

Note: Where this policy conflicts with the Financial Services Commission of Ontario Act, 1997, S.O. 1997, c. 28 (FSCO Act), Pension Benefits Act, R.S.O. 1990, c. P.8 (PBA) or Regulation 909, R.R.O. 1990 (Regulation), the FSCO Act, PBA or Regulation govern.

*Note: The electronic version of this policy, including direct access to all linked references, is available on FSCO's website at www.fSCO.gov.on.ca. All pension policies can be accessed from the **Pensions** section of the website through the **Pension Policies** link on the left side of each page.*

Section 11(1) of the PBA requires that a pension plan "...provides for the accrual of pension benefits in a gradual and uniform manner." The question of what is gradual and uniform accrual in the context of a multi-employer pension plan (MEPP) has seen various interpretations over the years, some of which are no longer acceptable to FSCO.

One difficulty that can arise centres around a plan that is structured so that the proportion of a member's annual benefit that is earned is determined by a band of hours worked during the year. For example, a MEPP might be structured with contributions being made to the fund for every hour worked.

<u>Hours Worked by Member Per Year</u>	<u>Member's Entitlement to Benefits Credited</u>
Less than 600 hours	No benefit credited
600 but less than 1,000	1/4 annual benefit credited
1,000 but less than 1,400	1/2 annual benefit credited
1,400 but less than 1,800	3/4 annual benefit credited
1,800 and over	Full benefit credited

If the negotiated contribution was \$1 for every hour worked, a member who worked 600 hours would have \$600 contributed and a member who worked 999 hours would have \$999 contributed. Both would be entitled to the same proportion of the annual benefit credited, i.e., 1/4. However, using the hour bands above, if the member who worked 999 hours should work just one hour more, the employer would contribute one additional dollar but that member's proportion of the annual benefits credited would jump from 1/4 to 1/2.

FSCO is no longer accepting such a schedule as being gradual and uniform because the change in the proportion of the year credited is not truly reflective of the member's actual hours worked or the contributions made to the fund. The only acceptable method of recognizing hours (and contributions) is to provide a benefit pro-rated over the number of hours which represent a full year. For example, if a full year's benefit is earned after working 1,800 hours, then a member who works 600 hours is entitled to a credit of 600/1,800 or 1/3 of a year.

When administrators of pension plans (administrators) recorded benefit accruals manually, the use of hour bands or salary schedules was a method that was easy to calculate and to administer. However, with computers so widely used in pension plan administration today, administrators can provide benefits which are fairer to the employees without being more difficult to administer.

Administrators should review their pension plans to determine if such schedules are in use, and arrange to have affected plans amended for future accruals only. This administrative practice deals only with accrual of benefits after the employee becomes a member of the pension plan; this is to ensure that benefits are received for every hour worked. It does not deal with or affect eligibility for membership, requirements for which are set out in section 31 of the PBA.