



SECTION: Gradual and Uniform

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TITLE: Benefit Accrual in Defined Benefit and Defined Contribution Plans
- PBA, 1987 s. 11

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Note: Due to legislative changes, references to "PBA, 1987" should now read "PBA, R.S.O. 1990," and references to s. 11 and 41 of the PBA, 1987 should now read s. 11 and 40 of the PBA, R.S.O. 1990.

Gradual and Uniform Accrual of Pension Benefits

One of the objectives of the *Pension Benefits Act*, 1987 (the "PBA") is to ensure that pension benefits accrue evenly during an employee's period of membership in a plan so that dramatic increases at certain times are avoided. In the absence of a clear description of what constitutes gradual and uniform accrual, plan sponsors and consultants have been submitting specific formulas to staff for review and acceptance.

A plan that would provide a great bulk of pension benefits if the employee were to stay with the company until retirements is not permitted as it is inequitable to younger members.

In a defined benefit plan, a formula that provides a large jump in benefits at certain times may place the employee in a vulnerable position. For example, an older employee could be terminated just prior to the time when the increase would begin, or might be unable to retire until he has reached the age of the increase; on the other hand, a younger or part-time employee's entry level might be so low that it would be very disadvantageous in the circumstances. Further, provisions which allow ancillary benefits such as early retirement windows and bridging benefits appear to be - by their nature - contrary to the principle of gradual and uniform.

a) Defined Benefit Plans

The gradual and uniform accrual requirements of subsection 11(1) apply only to the accrual of basic pension benefits, not to the ancillary benefits as set out in subsection 41(1). When early retirement windows are being provided, the basic pension benefit is subject to gradual and uniform accrual, but not the ancillary benefit.

b) Defined Contribution Plans

1. Once the initial rate of contribution has been established, the contribution formula should provide for benefit increases in reasonably equal increments and intervals of time. The rate of contribution established at the outset should not be lesser than subsequent rate increases, in order to avoid prejudice to younger workers or newer employees.

2. A plan may use a step formula for an early period of membership, and a level formula for all subsequent periods.
3. A specific contribution rate schedule, such as that approved and in use in Quebec, is consistent with the intention of the PBA, 1987 and is acceptable.

The requirements of this policy will apply to new plans, including those into which existing plans are being converted.