

UNIFOR MEPP GLOSSARY OF TERMS

ACCRUED PENSIONS

The value of the monthly pension benefits payable to the members over their lifetime to which they are already entitled or will become entitled to (provided their contributions continue) under the plan.

ACTIVE MANAGEMENT

An investment management style where investment managers actively choose companies or investment vehicles, they think will perform better than others, aiming to achieve returns above a chosen benchmark or market index. It is the opposite of passive management.

ACTIVE MEMBER

A person who is employed by a participating employer and on whose behalf contributions are being made to the plan.

ACTUARIAL VALUATION REPORT

A report analysing the financial condition of a pension plan that calculates the actuarial liabilities of the plan as of a certain date and the “service cost” of providing plan benefits on an annual basis, in comparison to a plan’s assets and annual contributions income (respectively). An actuary prepares the valuation and must file it with pension regulators at least once every three years.

ACTUARIAL VALUATION UPDATE

Interim “mini-valuation” estimates that are provided to the trustees at each Unifor MEPP meeting in order to roughly assess the plan’s financial position since the last filed full valuation report.

ACTUARIAL LIABILITIES

The present value of the amounts required by the plan to cover the expected cost of paying current and future pension benefits.

ACTUARY

A business professional who is a fellow of the Canadian Institute of Actuaries (CIA) and is authorized to prepare and sign actuarial valuations.

ADMINISTRATOR (PLAN ADMINISTRATOR)

The person, group, body, or entity responsible for managing the pension plan and the plan's pension fund. In most cases, one of the employers is the plan administrator, but the plan administrator can also be a board of trustees, a pension committee, an insurance company, or some other body established by law, or in certain circumstances, a person appointed by the Regulator. The administrator may hire third parties to aid in administration but is responsible for monitoring their activities.

ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs) – a pension fund contribution that is made by a pension plan member, and that is in excess of any amount that the member is required to contribute.

ANNUITY

A contract purchased from an insurance company to provide periodic (usually monthly) payments to a person for his or her lifetime.

ASSETS

Plan assets refer to the property of the pension fund, primarily comprised of the fair value of its investments.

ASSET ALLOCATION (ASSET MIX)

The percentage of a portfolio or fund that is invested in each of the main asset types (i.e. short-term investments, fixed income / bonds, equities / stocks, and alternatives).

BASIS POINT

One one-hundredth of a percentage point (0.01 percentage point). For example, if the target for the overnight interest rate is raised from 2.75 % to 3.00 %, it has been increased by 25 basis points.

BCFSA (BC FINANCIAL SERVICES AUTHORITY)

The provincial regulatory body authorized to monitor the plan's compliance with the applicable provincial laws and regulations. Their key mandate is to ensure the security and equitable distribution of pension benefits promised to members.

BENCHMARK

A standard against which the performance or characteristics of a portfolio or investment is evaluated. The S&P/TSX equity index and the DEX Universe Bond index are widely used Canadian equity and Canadian fixed income benchmarks, respectively.

BENEFICIARY

Any person who is receiving, or is entitled to receive, a benefit under a pension plan.

BRIDGE BENEFIT

A bridge benefit usually provides income from the date a pension plan member retires to the date when the member is entitled to receive Canada Pension Plan (CPP) or Quebec Pension Plan (QPP) retirement benefits and/or Old Age Security benefits, usually at age 65.

CANADA REVENUE AGENCY (CRA)

The federal regulatory body authorized to monitor the plan's compliance with the income tax act and regulations. Their key mandate is to ensure the tax-deferred nature of registered retirement programs is not abused or circumvented.

CAPSA

Canadian Association of Pension Supervisory Authorities (CAPSA) is a national inter-jurisdictional association of pension supervisory authorities whose mission is to facilitate an efficient and effective pension regulatory system across Canada. It discusses pension regulatory issues of common interest to various jurisdictions and develops policies to further the simplification and harmonization of pension law across Canada.

COMMUTED VALUE

The amount of an immediate lump-sum payment estimated to be equal in value to a future series of payments. The value is calculated using assumptions prescribed by the Canadian Institute of Actuaries that are based on current market conditions.

CONSUMER PRICE INDEX (CPI)

An inflation measure computed by Statistics Canada that calculates the change in prices of a fixed basket of goods and services purchased by a typical Canadian consumer each month. The CPI is used to calculate annual cost of living increases for pension benefits; a process referred to as Indexing.

CREDIT SPREAD

The difference in the yield between two different bonds, due to different credit quality. The credit spread reflects the additional net yield an investor can earn from taking incremental credit risk. It is often quoted in relation to the yield on (federal) government bonds.

CONTRIBUTION SUFFICIENCY TEST

A section of an actuarial valuation report verifying that a target benefit plan meets the regulatory thresholds required in order to not have to reduce benefits.

CUSTODIAN

An organization (usually a bank or insurance company) responsible for holding and reporting on a plan's assets, as well as paying out pension benefits to the plan's members. The Unifor MEPP currently has two custodians (Canadian Western Trust, who is responsible for holding the assets, and Global Benefits, who is responsible for paying pension benefits).

DEFERRED MEMBER

A person who is entitled to receive a pension from the plan for a previous period of active plan membership which is payable at a future date.

DEFERRED PENSION

A specified pension determined when a member's employment or plan terminates that is not payable until sometime later, usually at retirement.

DEFICIT

A deficit exists in a pension plan when the actuarial valuation determines that the value of the plan's assets is less than its actuarial liabilities.

DEFINED BENEFIT PENSION PLAN

A plan where the monthly pension received by members is determined by a defined formula based on factors like earnings, years of service, contributions, or some combination thereof. The Unifor MEPP Pension Plan has a Defined Benefit formula based on contributions made during active service.

DEFINED CONTRIBUTION PENSION PLAN

A pension plan that defines the amount of employer and employee contributions (if any) to the pension fund, determined on an individual account basis. The account balance the member will have access to on retirement is determined at the date of retirement and is based on accrued contributions and investment income.

DERIVATIVES

Financial contracts, or financial instruments, whose values are derived from the value of something else (known as the underlying). The underlying on which a derivative is based can be an asset (e.g. equities, bonds), an index (e.g. exchange rates, stock market indices) or other items. The main types of derivatives are forwards (which, if traded on an exchange, are known as futures), options and swaps. Derivatives can be used to hedge the risk of economic loss arising from changes in the value of the underlying.

DURATION

The weighted average term to payment of the cash flows on a bond. Also, the sensitivity (to discount rate changes) of the present value of a stream of future payments.

EARLY RETIREMENT AGE

Members who are within 10 years of pensionable age are eligible to receive an early retirement pension from the plan (e.g. if the plan's pensionable age is 65, members could choose to retire at any time between the age of 55 and 65). However, the amount of pension may be reduced (actuarially adjusted) to compensate for the fact that it is payable for a longer period of time.

FAIR VALUE

An estimate of the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

FIDUCIARY

An individual or institution occupying a position of trust. An executor, administrator or trustee who is responsible for the assets belonging to another person.

FUNDED RATIO

The ratio of pension plan assets to pension plan liabilities as determined by the latest actuarial valuation. The funded ratio equals 100% when the value of the pension plan's assets and liabilities are equal. Can be measured on either a "solvency" or "going concern" basis.

GOING CONCERN VALUATION

A pension plan valuation that looks at the plan's funded status on the basis that the plan will continue to operate indefinitely. This impacts what assumptions the actuary makes, especially with respect to the discount rate (which is based on the interest that the plan is expected to earn on its investments over the long term).

GOVERNANCE

Pension plan governance refers to the structure, processes and safeguards for overseeing, managing and administering the plan to ensure the fiduciary and other obligations of the plan are met.

GUARANTEED PENSION

A pension that will be paid to a person for his or her lifetime, with a minimum number of payments guaranteed. For example, if the plan member opts for a five-year guarantee but dies after three years, payment will continue to the survivor or the estate for two more years.

HEDGING

Using one kind of security to protect against unfavorable movements in the price of another kind of security. Usually edging is accomplished by the use of derivatives such as options, forwards, swaps or futures.

INDEXING

The (usually automatic) periodic cost of living adjustment of pension benefits based on a percentage or capped value of the Consumer Price Index.

INVESTMENT CONSULTANT

A business professional, typically with a CFA (Certified Financial Analyst) designation who is responsible for helping the administrator develop, implement and manager their investment policy from a high level (including advising the administrator on which investment managers to hire).

INVESTMENT MANAGER

A company / team of professionals responsible for making day-to-day investment decision on behalf of someone else. For pension plans such as the Unifor MEPP, investment mangers usually specialize in institutional-level assets and help manage these portfolios via inclusion in one of their pooled funds.

JOINT AND SURVIVOR PENSION

A pension payable for the lifetimes of both the plan member and his or her spouse or common-law partner. Payments may be reduced by up to 40% on the death of the member (this percentage must be selected by the member at retirement and cannot be changed thereafter). Usually, lower reductions are offset by an actuarial reduction in the starting pension.

LEVEL INCOME OPTION

A level income option provides a temporary increase in a member's pension from the date of their early retirement to the date when the member is entitled to receive Canada Pension Plan (CPP) or Quebec Pension Plan (QPP) retirement benefits and/or Old Age Security benefits, usually at age 65. Unlike a bridge benefit, this comes at a cost in the sense that the post-65 pension is actuarially adjusted (reduced) to pay for the temporary pre-65 increase. The goal of a level income option is to provide early retirees with a level lifetime income after taking into account the start of government benefits at age 65.

LIABILITY DRIVEN INVESTMENT (LDI)

LDI, which is also known as asset/liability matching, is an investment strategy that manages a pension plan's assets relative to its liabilities with the intent of minimizing pension surplus volatility (usually on a solvency basis). This is done primarily through the hedging of interest rate and inflation risk. Under LDI, pension plan assets are grouped into matched and unmatched assets. Matched assets (fixed income) have interest rate and inflation sensitivities similar to the pension plan's liabilities. Unmatched assets (equities and alternative investments) do not have the same interest rate and inflation sensitivities as the pension plan's liabilities.

LIFE INCOME FUND (LIF)

A personal retirement income fund offered by financial institutions. It is similar to a Registered Retirement Income Fund (RRIF). A LIF can be purchased with pension funds on termination of employment or retirement. A LIF is used to provide a regular retirement income and is subject to minimum and maximum withdrawal limits.

LOCKING-IN

A legislative requirement whereby pension benefits cannot be used for any purpose other than to provide a retirement pension. Funds transferred to LIFs, RLIFs, Locked-in RRSPs and RLSP are also locked-in. Exception exists for relatively small entitlements.

MANAGEMENT FEE

A charge levied by an investment manager for managing an investment fund. The management fee is intended to compensate the managers for their costs and expertise.

MATURE PENSION PLAN

A pension plan where the number of retired members and active members near retirement is significantly greater than the number of younger plan members. Mature plans usually pay out more to retired members than they receive from active members. The Unifor MEPP is a mature plan.

NORMAL RETIREMENT AGE

The age at which a member can retire without any early retirement adjustments or subsidies, usually age 65.

PARTICIPATING EMPLOYER

An employer who is required to contribute to the Unifor MEPP (by virtual of a collective bargaining or other similar arrangement) on behalf of some or all of its employees.

PASSIVE MANAGEMENT

An investment management style that seeks to achieve returns equal to the market or index returns, also known as “indexing.” It is the opposite of active management. The objective of passive management is to minimize the possibility of earning less than the index return, which can occur with active management. Passive management is usually significantly cheaper than active management.

PENSION ADJUSTMENT (PA)

The estimated value of a member's pension benefits accruing in a particular year as determined under the *Income Tax Act*. For the Unifor MEPP, the PA is the total of all employer and employee contributions for the year. A person's RRSP contribution room is reduced by the value of the previous year's PA.

PENSION BENEFITS STANDARDS ACT

Enforced by the BC Financial Services Authority (BCFSA), this Act establishes minimum standards regarding the registration, the funding and the administration of pension plans regulated in BC.

PENSION FUND

A pool of assets forming an independent legal entity that is bought with the contributions (by the plan sponsor and members) to a pension plan for the exclusive purpose of financing pension plan benefits.

PENSION INDEXATION

The periodic cost-of-living adjustment of pension benefits usually based on a percentage or capped value of the Consumer Price Index.

PLAN WIND-UP

Distribution of the benefits and assets of a pension plan that has been terminated.

PORTABILITY / TRANSFER OPTIONS

The options available on cessation of membership, death, marriage breakdown, or plan termination. Members, or survivors in the case of a member's death, can transfer the commuted value of accrued pension benefits to a Locked-in RRSP, a LIF, an RLIF, another pension plan (if agreed to by the new plan), or the commuted value can be used to purchase an immediate or deferred annuity. A member can forego these options and instead receive a deferred pension from the plan at retirement. Most plan do not allow for portability after age 55.

PRIVATE EQUITY

The sale of equity or fixed income securities directly to institutional investors such as banks, insurance companies, hedge funds and pension funds. As the sale is to institutional investors only, the securities registration and information disclosure requirements are reduced relative to publicly traded securities. Typically, these securities are not traded on a public exchange.

REGISTERED RETIREMENT INCOME FUND (RRIF)

A personal retirement income fund offered by financial institutions. An RRIF is intended to provide an ongoing flow of income. RRIFs are governed by the *Income Tax Act* which determines minimum withdrawal amounts.

REGISTERED RETIREMENT SAVINGS PLAN (RRSP)

A personal retirement savings account offered by financial institutions. RRSPs are governed by the *Income Tax Act* which sets the maximum amount of RRSP contributions that can be deducted from an individual's taxable income.

RETIRED MEMBER

A person who is receiving a monthly pension paid by the plan. This includes retired active and deferred members, surviving spouses and children, as well as ex-spouses receiving a pension upon the breakdown of a spousal relationship with a plan member.

SIP&P

Statement of Investment Policy and Procedures. The SIP&P defines the investment policies, principles and eligible investments which are appropriate to the needs and objectives of the Plan and the Fund, in a manner conforming to the requirements of the Pension Benefits Standards Act and the Regulations thereof.

SOLVENCY BASIS VALUATION

A pension plan valuation that assumes that the plan suddenly stops operating as of the valuation date. It is intended to test whether the plan has sufficient assets to provide an immediate payout of all benefits that have been earned to that date. Under this scenario, the actuary must assume that all benefits will be settled either by way of the purchase of annuities (for certain members) or the payout of lump sums (for other members).

SURPLUS

A surplus exists in a pension plan when the actuarial valuation determines that the assets available exceed the accrued benefit payments (liabilities) to be paid out. (Also reckoned on a solvency and on a going concern basis.)

TARGET BENEFIT PLAN

A pension plan where contributions are fixed by collective bargaining and whose promised benefits may be reduced in the case of financial distress (usually only if so required by regulations).

VESTED BENEFITS (VESTING)

Pension benefits to which an employee is entitled upon cessation of membership under a pension plan. Under the Unifor MEPP, pension benefits are vested immediately when contributions are received into the plan on behalf of a member.

YIELD CURVE

The relation between the interest rate (rate of borrowing) and the time to maturity of the debt for a given borrower in a given currency.

YEAR'S MAXIMUM PENSIONABLE EARNINGS (YMPE)

The earnings on which Canada Pension Plan / Quebec Pension Plan contributions and benefits are calculated. The YMPE changes each year according to a formula using average wage levels. The YMPE is set annually by the Canada Revenue Agency (CRA) and is available on the CRA website.