Types of Registered Pension Plans and Benefits

In Ontario, there are several different types of registered pension plans and types of benefits offered.

Types of Registered Pension Plans

- **Single Employer Pension Plans**
- **Multi-Employer Pension Plans**
- **Jointly Sponsored Pension Plans**

Types of Benefits Offered

- **Defined Benefits**
- **Defined Contributions**

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Single Employer Pension Plans

A single employer pension plan (SEPP) is one in which a single employer, or several related employers within a corporate group, participate and contribute to the same pension plan. A SEPP can be provided to all employees, or just certain **classes of employees** (e.g., all unionized employees). It is usually governed and administered by the **plan sponsor** without input from **plan members**.

Who Makes Contributions

Contributions to SEPPs are always made by the employer. However, some SEPPs are contributory plans, as plan members are also required to contribute to the plan.

Types of Benefits

A SEPP can be either a defined benefit or defined contribution plan, or a combination of both types of plans. (For more information, read FSCO's web pages on **defined benefit** and **defined contribution** pension plans.)

If the SEPP provides **defined benefits**, your benefits are calculated using a fixed formula that is included in your plan's employee booklet. These benefits usually cannot be reduced once they are **earned (or accrued)**. However, any kind of pension plan can be amended to change the pension benefits plan members earn in the future, or for a defined contribution plan, the contributions members are required to make in the future.

The employer is required to make contributions to the plan, which provides your pension benefits, and must cover any shortages if the plan does not have enough money to pay your benefits.

SEPPs and the Pension Benefits Guarantee Fund

If the SEPP provides defined benefits and is covered by the **Pension Benefits Guarantee Fund** (PBGF), it is required to pay annual premiums to the PBGF (e.g., even if a plan provides defined benefits, it would not be covered by the PBGF if it has been in effect for less than five years). The PBGF guarantees payment of defined benefits up to a maximum of $1,000 per month, if a plan is **wound up**, because the employer is insolvent and does not have enough money to pay the benefits it owes to plan members.

Learn More

Read about the **eligibility conditions for joining a SEPP**.

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Multi-Employer Pension Plans

A multi-employer pension plan (MEPP) is one in which two or more unrelated employers participate and contribute to the same pension fund. It can be a **defined benefit** or **defined contribution plan—**or a **combination of both types of plans**. It can be a collectively bargained plan or a non-negotiated plan.

A defined benefit MEPP recognizes your years of membership in the MEPP when your **pension benefits** are calculated. Some MEPPs may also recognize your years of employment with other employers that are part of the MEPP, when your pension benefits are determined.

MEPPs are usually established in unionized industries by a union's collective agreement. However, some MEPPs may be established by laws (e.g., statutes) or other agreements.

If you work in such a unionized industry, your collective agreement will dictate the level of your employer's contributions to the MEPP. The level of pension benefits that are provided to **plan members** are established by the board of trustees that administers the MEPP.

If your MEPP provides defined benefits and your employer's contributions are not enough to cover the pension benefits, your benefits may be reduced. In these types of pension plans, benefits are a target, as they are not fixed and may be reduced. As a result, these types of benefits are sometimes referred to as target benefits.

How MEPPs are Different from Single Employer Pension Plans

There are some key differences in how MEPPs operate, compared to **single-employer pension plans (SEPPs)**.

How the MEPP is Administered

If MEPPs are established by a collective agreement or trust agreement, they are required to be administered by a board of trustees, unlike SEPPs that are usually administered by the employer.

Who Sits on the Board of Trustees

At least half of the board's trustees must be representatives of the MEPP's members.

Benefit Reduction

If a defined benefit MEPP is established under a collective bargaining agreement or trust agreement, and does not have enough money to cover the benefits that would otherwise need to be paid to plan members, it may:

- reduce the benefits that you earned before the date of the amendment; and
- be required to change the pension benefits that you have already earned (or **accrued**), or are currently being paid.

MEPPs and the Pension Benefits Guarantee Fund

MEPPs are not covered by the **Pension Benefits Guarantee Fund**.

Learn More

- Read about the **eligibility conditions for joining a MEPP**.

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Jointly Sponsored Pension Plans

A jointly sponsored pension plan (JSPP) is a special type of pension plan in which decision making and contributions are shared by both plan members and their employer(s). A JSPP provides **defined benefits** to plan members and contributions are always made by both **plan members** and their employers (this is known as a **contributory plan**).

How JSPPs are Different from Other Pension Plans

There are some key differences in how JSPPs operate, compared to other types of pension plans.

Contributions

If a JSPP becomes underfunded, both **plan members** and the employer are jointly responsible for making any required additional contributions to deal with the shortage of funds. No reduction in earned **pension benefits** is permitted, unless the plan is **wound up**.

Decision Making

Decision making for a JSPP is jointly shared by both the employer(s) and plan members. This includes all decisions about the terms and conditions of the plan, any amendments to the plan, and the appointment of the **plan administrator**.

JSPPs and the Pension Benefits Guarantee Fund

JSPPs are not covered by the **Pension Benefits Guarantee Fund**.

Learn More

Read more about the **eligibility conditions for joining a JSPP**.

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Defined Benefits

If you belong to a defined benefit pension plan, your **pension benefit** is determined or “defined” by a formula that calculates how much money you will receive each year after retirement. The formula is usually based on your annual earnings and how many years you have been a member of your employer's pension plan.

In addition to the annual base pension (that is, the amount determined by the formula), some defined benefit pension plans may provide additional benefits, known as **ancillary benefits**.

To learn about your specific pension benefits, refer to your annual statement, the most recent version of your plan's employee booklet, or ask your **plan administrator**.

Benefit Formulas

The following are the most common types of benefit formulas used in defined benefit pension plans.

Final (or Best) Average Earnings

This benefit formula is normally based on your average annual earnings over the last (or highest paid) years of employment and the total number of years you have been a **plan member**.

For example, Sandy's pension plan text states that her annual pension benefit will be calculated using the following formula:

1.5% of average annual earnings over the last five years x pensionable service = annual base pension

If Sandy's average annual earnings over the last five years of employment are $54,000 and her pensionable service is based on how long she worked for her employer (23 years), then she would receive an annual pension benefit of $18,630 (1.5% X $54,000 X 23 = $18,630).

Career Average Earnings

This benefit formula is usually based on your average annual earnings over the entire period of time you have been a member of your employer's pension plan, multiplied by the number of years you have been a plan member.

For example, Nathan's pension plan text states that his annual pension benefit will be calculated using the following formula:

1.5% x total years of employment x average annual earnings over the working life of the plan member = annual pension benefit

If Nathan works for 27 years and his average annual earnings over that period are $32,000, then he would receive an annual pension benefit of $12,960 (1.5% X 27 X $32,000 = $12,960).

Flat Benefit

This benefit formula is normally based on a set or "flat" dollar amount for each year (or month or number of hours) of employment or service. Your individual earnings are not taken into account.

For example, Emma's pension plan text states that her annual pension benefit will be calculated using the following formula:

$40 per month x number of months of service = annual pension

If Emma works for 32 years and 6 months (or 390 months), then she would receive an annual pension benefit of $15,600 ($40 x 390 = $15,600).

Ancillary Benefits

In addition to the annual pension, a defined benefit pension plan **may** provide extra benefits, known as ancillary benefits. This includes:

- **bridging benefits**;
- temporary supplemental benefits;
- disability benefits;
- **death benefits** on top of those required by the Pension Benefits Act (PBA);
- early retirement options and benefits in addition to those required by the PBA; and
- postponed retirement options and benefits in excess of those required by the PBA.

The eligibility requirements for an ancillary benefit are set out in the plan's terms and may be different than the requirements for receiving the annual pension. A **single employer pension plan (SEPP)** or a **jointly sponsored pension plan (JSPP)** cannot normally be amended to reduce an ancillary benefit for a plan member who has met the eligibility requirements to receive the ancillary benefit.

If you have met all of the eligibility requirements to receive an ancillary benefit, but the plan administrator's consent is still required for you to receive it, the administrator shall be deemed to have given consent to you.

Combination of Defined Benefits and Defined Contributions

Some pension plans contain both **defined benefit** and **defined contribution** provisions. These plans are known as combination plans or hybrid plans.

Learn More

Get more information on **how registered pension plans work**.

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Defined Contributions

If you belong to a defined contribution pension plan (also known as a money purchase pension plan), your retirement benefits are based on contributions from both your employer and you (if your plan is a **contributory plan**), plus investment income on these contributions. At retirement, this money is usually used to purchase a **life annuity** from an insurance company, or to buy a **Life Income Fund** (LIF) from a financial institution.

Your employer regularly contributes a pre-set amount of money (or a specific percentage of your earnings) into your individual plan account, which is then invested along with your contributions (if any).

You will not know the amount of your ultimate **pension benefits** until you retire. This is because the amount of your pension benefit is based on several factors that cannot be determined until you retire.

Factors that Influence Your Pension Benefit Amount at Retirement

1. **The Amount of Money Contributed into the Account**

   Pension contributions will vary with each pension plan and each employee. The more money that is contributed, the more money you will likely have when you retire.

2. **Number of Years the Money has to Grow**

   The more time your money has to grow and earn investment income (i.e., the longer that the contributions are in your pension account prior to retirement or withdrawal), the more money you will likely have in your account when you retire.

3. **Your Earnings on the Invested Contributions**

   This will be different for each pension plan and each individual plan member. Some pension plans may be responsible for investing the money for you, but most require you to make your own investment decisions. (In either case, the investments must comply with the rules set out in the **Pension Benefits Act** and the federal **Income Tax Act**.)

   Regardless of who is in charge of the investments, the value of your invested contributions will depend on how well they perform.

Your Life Annuity or Life Income Fund

At retirement, you can use the money in your individual plan account to purchase a **life annuity** or, if the plan permits, you may transfer the money to a **Life Income Fund** (LIF).

If you decide to buy a life annuity, the amount of the annuity payments that can be bought will be based on the long-term interest rates in effect at the time of purchase. The higher the long-term interest rates, the higher the annuity payments.

Under the **Pension Benefits Act**, a LIF is an alternative to a life annuity and will also provide you with a stream of payments.

If you fail to choose between a LIF and a life annuity, the default position is that your **plan administrator** will purchase a life annuity for you.

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