

A Brief Review of Pension Plans

Most pension plans are one of two types:

Type 1. Defined Contribution Plan (Money Purchase Plan).

Both the employer and employee contribute a fixed percentage of salary to a fund. The contributions and interest are used to purchase an annuity or similar financial vehicle to fund the employee's retirement. Essentially an RRSP.

**Key Features: No extra costs for the employer.
Employees bears all the risk.
The size of the pension is not guaranteed.**

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Type 2. Defined Benefit Plan.

Both the employer and employee contribute a percentage of salary to a fund. At retirement, the employee's pension benefit is calculated according to a formula, usually:

Annual pension = Average best salary x Years of service x .02

**Key Features: Pension is guaranteed by the employer.
May or may not be indexed.**

The Dalhousie Pension Plan

The Dalhousie Pension Plan is unusual in being a Hybrid Plan; it is essentially a defined benefit plan with some aspects of a money purchase plan.

Subject to certain conditions, on *termination* (not retirement) employees can withdraw their **SOCC** (sum of contributions compounded) *or* retire with a defined benefit pension.

The Dalhousie Pension Plan

The DPP is also unusual because it consists of 2 funds: the Pension Trust Fund (**PTF**) and the Retiree's Trust Fund (**RTF**).

The **PTF** is the main fund into which the employer and employees contribute.

At retirement, the pension benefit for the employee is calculated, along with the amount of money required to fund it – this is the **Commuted Value**. The commuted value is then transferred to the **RTF**. It is from this fund that all pensions are paid.

Early in one's career, the commuted value is greater than SOCC. As length of service increases, SOCC becomes larger.