



FOUR

GLOSSARY

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Active Member

A person currently employed in an eligible position with a public employer. Active members accrue membership service in a public retirement system and generally make contributions toward their retirement benefits.

Actuarial Assumptions

Factors actuaries use to estimate the cost of funding a defined benefit pension plan. Examples include: the rate of return on plan investments; mortality rates; and the rates at which plan participants are expected to leave the system because of retirement, disability, termination, etc.

Prescribed Assumption

A specific assumption mandated or selected from a specific range that is deemed to be acceptable by law, regulation, or other binding authority.

Assumption Format

The form in which a particular assumption will be used or expressed. The format can be as simple as a single point estimate, where one number is applied, regardless of a member's age or gender. An assumption can also be developed by age, gender, credited service, plan or other group, or any combination of those categories.

Actuarial Gain or Loss

Experience of the plan, from one year to the next, which differs from that assumed, results in an actuarial gain or loss. For example, an actuarial gain would occur if assets earned 10 percent for a given year since the assumed interest rate in the valuation is 8 percent.

Actuarial Reduction

A reduction in a benefit received at an early date so that the expected total cost to the retirement system is equivalent to the cost if the benefit did not begin until later.

Annuitant

A person receiving periodic payments from a retirement system. This term includes service and disability retirees, and their survivors.

Annuity

A series of periodic payments, usually for life, payable monthly or at other specified intervals.

Deferred Annuity

An annuity for which payments do not commence until a designated time in the future.

Joint and Survivor Annuity

A provision that enables a plan participant to take annuity payments with continuing payments of all or part of the benefits after his or her death going to a designated beneficiary. The survivor annuity will automatically be provided to a married participant if he or she does not choose against it. The annual pension benefits of the participant electing to have such a survivor annuity are generally reduced to provide for the survivor.

Life Annuity

A monthly benefit payable as long as the annuitant is alive. There are no residual payments to survivors.

Beneficiary

The person designated to receive benefits under an employee benefit plan in the event of the death of the person covered by the plan.

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Data Outliers

Observations that lie well outside the normal range experienced by others. An example of an outlier could be a recorded service retirement at age 110, when most other members retire by age 80.

Death Benefit

A benefit payable to a survivor or estate by reason of a member's death. The benefit can be in the form of a lump sum, an annuity, or a refund of the member's contributions.

Life Expectancy

The average number of future years a person of a given age might be expected to live.

Portability

The ability of an employee who changes jobs and joins a different retirement system to become a dual member, maintaining membership in both systems. Dual members may combine service for benefit eligibility. They may also use their highest salary from either system for benefit calculation.

Ratio of Actual-to-Expected (A/E)

A helpful statistic in determining how closely existing assumptions match actual experience. Ratios near 1.0 indicate a very close match. Ratios below 1.0 demonstrate that current assumptions are higher than actual rates. Ratios above 1.0 show that current assumptions are lower than actual rates.

Retirement

Disability Retirement

A termination of employment that provides, as a result of an accident or sickness, the payment of a retirement allowance before a participant is eligible for normal retirement.

Service Retirement

Retirement dependent upon attainment of a specified age and/or completion of a given length of service. In some cases, the term has the same meaning as "normal retirement".

Early Retirement

A termination of employment that provides the payment of a retirement allowance before a participant is eligible for normal retirement. The retirement allowance payable in the event of early retirement is often lower than the normal retirement allowance.

Vesting

The right of an employee to the benefits he or she has accrued, or some portion of them, even if employment under the plan is terminated. An employee who has met the vesting requirements of a pension plan is said to have a vested right. Voluntary and mandatory employee contributions are always fully vested.

Withdrawal

The termination of employment prior to becoming eligible for any benefits. The term sometimes refers to subsequent termination of membership in a system by withdrawal of the employee's accumulated contributions from the system.



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