



INTERNATIONAL BENEFITS NETWORK

IBN Glossary - Benefit Definitions

Accidental Death and Dismemberment	AD&D provides coverage for death or dismemberment resulting directly from accidental causes. Provides benefits in the event of loss of life, limbs or eyesight as the result of an accident.
Actuary - (Pension)	A person professionally trained in the technical and mathematical aspects of insurance, pensions and related fields. The actuary estimates how much money must be contributed to a pension fund each year in order to support the benefits that will become payable in the future. (Insurance) A person trained in the insurance field who determines policy rates, reserves and dividends, as well as conducts various other statistical studies. They are very well paid but the industry joke is that an actuary is someone who found accountancy too exciting.
Added Years	A method of enhancing pension benefits by making extra contributions. This only applies to a defined benefits plan.
Additional Voluntary Contributions (AVC)	The payment of extra contributions over and above those required by plan membership. This only applies to people who are members of certain types of plan run by their employer. AVCs can be Free Standing (an FSAVC), or In House.
AVCs – in house	In House AVCs are normally used to buy Extra Years or build up an investment fund. In the United Kingdom this term is now redundant in its technical pre-April 2006 sense, although it is expected to continue as a marketing/descriptive term. It will continue as a Money Purchase Arrangement, (possibly a Defined Benefit Arrangement in some “extra years” cases), and individuals can invest as much as they like, subject to the Annual and Lifetime Allowance rules.
AVCs - FSAVCs	AVCs are contributions to the pension scheme itself (or to funds managed by the



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	plan manager). An FSAVC means that the individual is opting to put their money with another investment company independent of the employer's plan.
Annuitant	Person who gets income from an annuity.
Annuity	A form of policy where, in exchange for giving the insurance company a lump sum, the annuitant gets an income for a fixed term, or until they die. An annuity is simply an income purchased with capital. On retirement the member usually has the choice as to whether they take income for their own life only or with a survivor's pension for their spouse/partner. They also usually have the choice as to whether the pension is paid at a flat rate or with annual increases.
Basic Medical Benefits	Generally represent benefits for hospital, surgical, medical and other miscellaneous employee benefits, excluding major medical insurance.
Beneficiary	A person named by the participant in an insurance policy or pension plan to receive any benefits provided by the plan if the participant dies. A person designated by a participant, or by the terms of an employee benefit plan, who is or may become entitled to a benefit thereunder.
Benefit	The rights of the participant or beneficiary to either cash or services after meeting the eligibility requirements of the pension or other benefit plans. Pension benefits usually refer to monthly payments payable on retirement or disability.
Benefit Formula	The formula by which pensions are calculated. The formula usually involves final pensionable salary and length of service. Other factors may also be involved.
Benefit Package	A listing of specific benefits provided by an employee benefit plan. The total value of noncash compensation.
Benefits in kind	Description given to those things that an employer gives an employee apart from actual money. E.g. cars, petrol, holidays. In



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	most countries these benefits are subject to taxation for the employee.
Bonus Sharing	The means whereby a company shares some of its profits with some or all of its employees.
Business Travel Accident Insurance	Coverage for an accident while travelling on company business. Generally applies to all accidents occurring while away from home, not just those during actual travel.
Career Average Pay Formula	A career average pay formula is a defined benefit plan formula that bases benefits on the employee's compensation over the entire period of service with the employer.
Cash Balance Plan	A defined benefit plan that simulates a defined contribution plan. Benefits are definitely determinable, but account balances are credited with a fixed rate of return and converted to a monthly pension benefit at retirement.
Chronically Ill	A person unable to perform two of six activities of daily living for at least 90 days, or who is severely cognitively impaired is said to be chronically ill. Under this term, qualification for long-term care expenses is determined.
Closed Plan	A pension plan that does not accept any new members.
Commutation	The act of giving up part or all of a pension in exchange for a lump sum.
Compensation	An approach to assigning a monetary value to work performed by employees. Compensation may include wages, salary, base pay, overtime pay, profit sharing, vacations and all benefits employees receive in return for their work.
Continuous Service	All creditable service rendered by a member without a break in service including periods of absence for which salary is paid or for military service.
Contract-Out (UK)	Normally used when talking about the ability to join an employer sponsored plan which replaces a state benefit. This would typically reduce the contributions paid by the member and/or the employer to the state plan.
Contribution Rate	As to an employee--a factor, such as a



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	percentage of compensation, used in determining the amounts of payments to be made by the employee under a contributory pension plan. As to an employer--a factor, calculated in an actuarial valuation, to be used in determining the employer's annual normal cost contribution under a pension plan. An employer's contribution rate may be either a percentage to be applied to the total compensation paid to covered employees for a particular year, or an amount to be applied to the total number of covered employees at a particular date.
Contributory Plan	A qualified pension plan that requires employees to make contributions by payroll deduction to qualify for benefits under the plan. May be a defined benefit or defined contribution plan. --A benefit plan under which employees bear part of the cost. In some contributory plans, employees wishing to be covered must contribute; in other contributory plans, employee contributions are voluntary and result in increased benefits.
Cost-of-Living Adjustment	An across-the-board increase (or decrease) in wages or pension benefits according to the rise (or fall) in the cost of living as measured by some index, often a consumer price index .
Covered Employee	A person covered by a pension or welfare plan is one who has fulfilled the eligibility requirements in the plan; for whom benefits have accrued, or are accruing; or who is receiving benefits under the plan.
Covered Service	Period of employment during which an employee is a participant in an employee benefit plan. A benefit provided to either individual beneficiaries or a purchasing group or employer.
Credited Service	A period of employment before or after the effective date of the plan that is recognized as service for one or more plan purposes, such as determination of benefit amounts, entitlement to benefits and/or vesting.



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Critical Illness Insurance	A limited form of health insurance that pays for treatment of specified diseases, such as cancer. Also known as dread disease policy.
Death After Retirement Benefit	A benefit paid to dependents when a member dies whilst in receipt of a retirement benefit.
Death in Service Benefit	The payment made to designated beneficiaries upon the death of a participating employee. This could be the employee's share in the investment fund, the life insurance purchased for him or her, or both.
Deferred Annuity	Annuity contract providing for the initiation of payments at some designated future date or age. Contrast with Immediate Annuity.
Deferred Benefits	Non-cash compensation to which an employee may be entitled at a later date following employment, assuming he or she has enough credited years of service for vesting (e.g., pension plans, savings plans, stock options, etc.).
Deferred Compensation Plan	Any plan in which employees can accumulate money on a tax-deferred basis. A qualified plan can have the option of permitting employees to withdraw assets without penalty for certain "emergency" situations specified in the plan, although the normal taxes must be paid on the withdrawn portion. Many also give employees the option of taking the benefit in cash. A deferred compensation plan can be combined with other plans such as a profit-sharing plan.
Deferred Retirement	When the employee works past normal retirement age.
Defined Benefit Pension Plans	Under a defined benefit plan, there is a definite formula by which the employee's benefits will be measured. This formula may provide that benefits be a particular percentage of the employee's average compensation over his or her entire service or over a particular number of years; it may provide for a flat monthly payment; or it may provide a definite amount for each year of



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	<p>service, expressed either as a percentage of his or her compensation for each year of service or as a flat dollar amount for each year of service. In plans of this type, the employer's contributions are determined actuarially. No individual accounts are maintained as is done in the defined contribution plans.</p>
<p>Defined Contribution Pension Plan</p>	<p>A type of plan where the pension is determined by the size of fund that the individual has built up. Contributions may be from employer and/or employee and are invested in a range of funds. At retirement the accumulated fund is used to purchase an annuity or provide a lump sum.</p>
<p>Dependent</p>	<p>This is usually the spouse, partner or child of a covered individual, as defined in a contract. Can be any person who relies on, or obtains coverage through, a covered individual.</p>
<p>Disability</p>	<p>A condition that renders an insured person incapable of performing one or more duties of his or her regular occupation. Benefit plan definitions of disability vary. One definition is as follows: Total disability is the inability to engage in any substantial, gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or has lasted or can be expected to last for a continuous period of not less than 12 months (and which precludes the claimant from performing not only his previous work, but considering his age, education and work experience any other kind of substantial gainful work which exists in the national economy regardless of whether such work exists in the immediate area in which he lives, or whether a specific job vacancy exists for him, or whether he would be hired if he applied for the work).</p>
<p>Disability Benefit</p>	<p>Periodic payments, usually monthly, payable to participants under some retirement plans if such participants are eligible for the benefits and become totally and permanently</p>



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	disabled prior to the normal retirement date. Includes short-term and long-term disability benefits.
Disability Pension	The annuity that is payable in the event that an employee becomes disabled before the age of normal retirement.
Disability Retirement	A termination of employment, generally involving the payment of a retirement allowance, as a result of an accident or sickness occurring before a participant is eligible for normal retirement.
Discount Stock Option	Allows executives to purchase company stock in the future at a predetermined price. Functions as a kind of executive deferred compensation.
Domestic Partner Coverage	Benefit coverage that recognizes as a family the ongoing, personal, intimate and committed relationship between two unrelated people of the same or opposite sex that is the approximate equivalent of marriage, but does not involve formal marriage. Benefit plans that recognize domestic partnerships treat the partners of participants as if they were spouses. Also known as co-habitants, life partners or spousal equivalents.
Double Indemnity	A provision under which certain benefits are doubled when accident is due to specified circumstances, such as public conveyance accidents; in a life insurance policy, a provision that the face amount payable on death will be doubled if the death is the result of an accident.
Early Retirement	A termination of employment involving 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 accrued portion of the normal retirement allowance.
Early Retirement Age	An age, established by the terms of an employee pension benefit plan, that is earlier than normal retirement age, at which a



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	participant may retire and receive benefits (usually reduced) under the plan.
Effective Date	The date on which an insurance policy or retirement plan goes into effect and coverage begins. Also, the date pay increases go into effect.
Employee Benefit Plan	A plan established or maintained by an employer or employee organization, or both. The purpose is to provide employees with a certain benefit such as pension, profit-sharing, stock bonus, medical, sickness, accident or disability benefits.
Employee Benefits	A collection of nonwage compensation elements, including but not limited to, income protection, services and income supplements for employees, provided in whole or in part by employer payments.
Employee Contributions	Made by an employee into a plan. May or may not be required for participation.
Employee Stock Option Plan	Gives an employee the right to purchase company stock for a certain price during a designated period of time.
Employer	Any person acting directly as an employer, or indirectly in the interest of an employer, in relation to an employee benefit plan. The term also includes a group or association of employers acting for an employer in such capacity.
Escalation	The rate of increase in the amount of pension a member receives once the pension is in payment.
Executive Compensation	Includes salary, bonuses, perquisites, stock and stock options, and other compensation arrangements. Tax considerations are key in the design of these plans.
Expatriate	An employee assigned outside of his or her base country for a year or more.
Family Allowances	Payments made under social systems for support of one or more children in a family. Frequently funded by the social security system of the country.
Final Average Salary or Final	A measure of a participant's level of earnings



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Pensionable Salary	that is based on his or her average rate of salary for a specified period of time, usually the three, five or ten years immediately preceding retirement. A participant's final average salary may be one of the factors used in determining the amount of his or her benefits.
Flexible Benefit Plan	A benefit programme that offers employees a choice between permissible taxable benefits, including cash, and non-taxable health and welfare benefits such as life and health insurance, holiday pay, retirement plans and child care. Although a common core of benefits may be required, the employee can determine how his or her remaining benefit value is to be allocated for each type of benefit from the total amount promised by the employer. Sometimes employee contributions may be made for additional coverage.
Freestanding Additional Voluntary Contributions	Money that can be put into a pension fund outside of the company plan in order to enhance benefits at a later date.
Group Medical Insurance	An employee welfare benefit plan providing medical care to participants and beneficiaries, directly or indirectly. A plan maintained by an employer to provide medical care, directly or indirectly, to employees, ex-employees and their families.
Immediate Vesting	That form of vesting under which rights to vested benefits are acquired by a participant, commencing immediately upon his or her entry into the plan.
Income Drawdown	This is when a member takes income from a retirement fund instead of buying an annuity.
Indexation	This is when a pension in payment is adjusted by a specified change in a price index or an earnings indicator.
Insured Pension Plan	A plan funded through contracts with a life insurance company, which guarantees payment of the annuities.
Late Retirement	When a member retires after the Normal Retirement Date.



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Legally Required Benefits	Benefits that are required by statutory law. In the United States, for example, workers' compensation, Social Security and unemployment insurance are required; benefits vary among countries. Companies operating in foreign countries must comply with host country compensation and benefits mandates. Also called statutory benefits.
Life Assurance Plan	An insurance policy that will pay out a benefit if a member dies – usually only applies to death in service.
Long-Term Disability	A disability that prevents a person from continuing in the occupation for which he or she was trained, usually lasting two years or more.
Long-Term Disability Insurance	Insurance issued to an employer (group) or individual to provide a reasonable replacement of a portion of an employee's earned income lost through serious and prolonged illness or injury during the normal work career.
Lump Sum	The capital accumulation in a plan, with or without interest, that may or may not be paid to the plan member on resignation or retirement. Some plans do not allow full cash payment on retirement but permit a small portion to be paid as a lump sum.
Matching Contributions	Made by an employer to a plan on an employee's behalf when the employee makes elective or nonelective contributions.
Maternity Leave	The period of leave granted to a pregnant mother covering the time of her confinement and the period after the birth. In many countries this also applies to the completion of an adoption.
Money Purchase Plan	A type of defined contribution plan in which the employer's contributions are determined for, and allocated with respect to, specific individuals, usually as a percentage of compensation. The benefits for each employee are the amounts that can be provided by the sums contributed to his or her account.



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Non-contributory Plan	A term applied to employee benefit plans under which the employer bears the full cost of the benefits for the employees; employees need not contribute.
Normal Retirement Age	The age, as established by a plan, when retirement normally occurs; usually it is the age when unreduced Social Security benefits are available.
Normal Retirement Date	The earliest date at which a participant qualifies for normal retirement under the plan.
Occupational Pension Plan	Pension plan sponsored by an employer, labor union or professional organization. Occupational plans can also be called company pension plans, registered pension plans or employer-sponsored pension plans.
Partial Disability	An illness or injury that prevents an insured person from performing one or more of the functions of his or her regular job.
Past Service Benefit	Credit toward a pension, provided by the employer, for all or part of a participant's years of service with the company before the adoption or amendment of a pension plan, or before the employee's entry into the plan.
Paternity Leave	The period of leave granted to a father following the birth of his child or the completion of an adoption.
Pay As You Go	Paying pension benefits as they become due without advance funding.
Payment Period	The length of time that a benefit such as short term disability will be paid before review or cancellation.
Pension	A series of periodic payments, usually for life, payable monthly or at other specified intervals. The term is frequently used to describe the part of a retirement allowance financed by employer contributions. Compare with Annuity. A regular payment, usually monthly, to a person who has retired from employment because of advanced age or disability.
Pension Increase	An increase in the amount of a retirement allowance after its commencement to reflect changes or anticipated changes in cost-of-



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	living or living standards. In many cases a maximum increase percentage is stipulated in the rules of the plan.
Pension Plan	A plan established and maintained by an employer, which may be a company, governmental entity or other organization, to provide retirement benefits to employees. The plan can be funded by insurance plans or from general assets. The amount of the pension benefit is either specified or can be calculated according to a set formula based on various factors, such as age, earnings and service, but not profit. The amount of annual contributions, which can be estimated by actuaries, must cover the specified benefits offered.
Pensionable Salary	The salary used to calculate pension contributions and benefits. The benefit may be based on the average of a number of years prior to retirement or of the last year's salary.
Pensioner	A person in receipt of a pension, either from the state or from an employer plan.
Permanent Disability	Employee's inability to work at any job, rather than at the specific job held at the time the disability was incurred. Permanent disability is typically covered by insurance for those employees who become disabled before reaching Normal Retirement Age.
Perquisites (Perks)	Special benefits for top executives and other managerial employees. In most instances they are treated as taxable income to the employee. Examples include company cars, housing allowances, special parking and club memberships.
Personal Pension (UK)	Individual policy that enables a person to save for retirement if he or she has contracted out of the state earnings-related pension plan or does not have access to an occupational plan.
Post Retirement Adjustment	A change (usually an increase) in the amount of a retirement allowance after its commencement to reflect changes or



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	anticipated changes in cost-of-living or living standards.
Provident Fund	A saving plan in which accumulations of employee and employer contributions are generally paid out in a lump sum when a vested employee ceases active employment.
Retirement Income	Income from pensions and other sources to which a retired person is entitled. May include both private and public pension payments, income from personal savings, government income supplements and imputed income.
Salary	Remuneration received by an employee and paid weekly, monthly or yearly as opposed to hourly pay. Usually applies to employees of higher levels with non-repetitive jobs that may or may not be supervisory in nature.
Salary Continuation Plan	A benefit option designed to provide some form of protection during disability. Also refers to a retirement plan for key employees where there is no qualified plan.
Severance Pay	A lump-sum benefit payable on termination of employment either in lieu of or in addition to a pension.
Short-Term Disability	Often considered to be a disability lasting usually not longer than two years.
Sick Leave	Plans that provide employees protection against short-term disability and typically specify a maximum number of benefit days per year or per disability that an employee may take at full pay before insured short-term or long-term disability benefits are initiated.
Social Security	A state program of old age and related benefits covering most workers and their dependents. Usually funded through a payroll tax paid by employers and employees or by direct government funding from central taxation. Used generally in reference to any government program providing economic security for portions of the public.
Social Security or State Retirement Age	The age at which unreduced Social Security benefits are payable.
Stock Option	The right to buy company stock at a certain



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	price within a particular period of time.
Stock Purchase Plan - (Nonqualified)	A plan that allows senior management or other key personnel to purchase employer stock. Certain restrictions apply: (1) the stockholder must be employed for a particular length of time, (2) the employer has the right to buy back the stock and (3) stockholders cannot sell the stock for a specific time period. (Qualified) A program under which employees buy shares in the employer's stock. The employer contributes a certain amount for each unit of employee contribution. Also, stock may be offered at a fixed price (usually below market) and paid for in full by the employees.
Termination Indemnities	Obligation by law for payments on separation based on age, service or reason for termination.
Top Hat Scheme	A special scheme for selected employees (usually senior executives).
Vesting	A term used by employers to indicate the time it takes for employer contributions to a retirement or other account to become property of the employee. An employee's right to receive a present or future pension benefit vests when it is no longer contingent upon remaining in the service of the employer. Employee contributions are always fully vested; however, interest upon such contributions may not be vested or may be paid at a specified rate, depending upon plan provisions. A vested benefit may be paid as a lump sum or, frequently, is paid as a deferred annuity upon retirement.
Voluntary Contribution	The amount of money the employee pays into the plan. Not required for employee participation; voluntary contributions do not affect the level of employer contributions.
Waiting Period	The period before a benefit such as short term disability becomes payable.
Waiver of Premium	Where an insurance company will continue payments to a plan on behalf of a member who is in ill-health or in receipt of a disability



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	benefit even though there may be no payment of contributions or premium.
Workers' Compensation	A system of providing for the cost of medical care and weekly payments to employees who suffer work-related illnesses or injuries and to dependents of those killed in industry. Absolute liability is imposed on the employer, which is required to pay benefits prescribed by law.