

Pension Plans

Last Updated Monday, 11 August 2008

A pension is a steady income given to a person (usually after retirement). Pensions are typically payments made in the form of a guaranteed annuity to a retired or disabled employee. Some retirement plan (or superannuation) designs accumulate a cash balance (through a variety of mechanisms) that a retiree can draw upon at retirement, rather than promising annuity payments. These are often also called pensions. In either case, a pension created by an employer for the benefit of an employee is commonly referred to as an occupational or employer pension. Labor unions, the government, or other organizations may also fund pensions.

Occupational pensions are a form of deferred compensation, usually advantageous to employee and employer for tax reasons. Many pensions also contain an insurance aspect, since they often will pay benefits to survivors or disabled beneficiaries, while annuity income insures against the risk of longevity.

While other vehicles (certain lottery payouts, for example, or an annuity) may provide a similar stream of payments, the common use of the term pension is to describe the payments a person receives upon retirement, usually under pre-determined legal and/or contractual terms.