

What is Pension Plan?

In general, a pension is an arrangement to provide people with an income when they are no longer earning a regular income from employment. Pensions should not be confused with severance pay; the former is paid in regular installments, while the latter is paid in one lump sum.

The terms retirement plan or superannuation refer to a pension granted upon retirement. Retirement plans may be set up by employers, insurance companies, the government or other institutions such as employer associations or trade unions. Called retirement plans in the USA, they are commonly known as pension schemes in the UK and Ireland and superannuation plans in Australia and New Zealand. Retirement pensions are typically in the form of a guaranteed life annuity, thus insuring against the risk of longevity.

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 additional insurance aspect, since they often will pay benefits to survivors or disabled beneficiaries. 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. A recipient of a retirement pension is known as a pensioner or retiree.