

PENSIONS JARGON DECODER

ACCRUAL RATE The rate at which rights build up for each year of pensionable service in a **Defined Benefit scheme** such as RPF.

ACCRUED BENEFITS The benefits for service up to a given point in time. They may be calculated in relation to current earnings or projected earnings.

ACCRUED RIGHTS The benefits to which a member is entitled, as of right, under an occupational pension scheme. These include accrued benefits. Depending on the context, accrued rights for an active member can be based on benefits as if the member had left service or could include a right to have benefits linked to future salary changes.

ACTIVE MEMBER A member of an occupational pension scheme who is accruing benefits in respect of current service.

ACTUARIAL REPORT A written report, prepared and signed by the **scheme actuary**, on developments affecting the scheme's **technical provisions** since the last **actuarial valuation** was prepared.

ACTUARIAL VALUATION A written report, prepared and signed by the **scheme actuary**, valuing the scheme's assets and calculating its **technical provisions**.

ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs) Contributions over and above a member's normal contributions if any, which the member elects to pay to an occupational pension scheme in order to secure additional benefits.

ADMINISTRATOR The **scheme administrator**. For RPF this is Capita.

ANNUAL ALLOWANCE The maximum amount of pension savings that can be built up in any one tax year before liability to an annual allowance charge arises. Some carry forward of unused allowance is permitted.

ANNUITY A series of payments, which may be subject to increases, made at stated intervals until a particular event occurs. This event is most commonly the end of a specified period or the death of the person receiving the annuity.

AUTOMATIC ENROLMENT The process whereby employers must automatically enroll workers that meet specified eligibility conditions into an automatic enrolment scheme. Workers can subsequently opt out by giving notice within a prescribed period.

AUTOMATIC ENROLMENT SCHEME A qualifying scheme that does not contain provisions preventing the employer from making arrangements for **automatic enrolment** and does not require workers to provide information or express a choice.

BASIC PENSION The flat-rate (not earnings-related) State pension paid to all who have met the minimum National Insurance (NI) contribution requirements. An individual may claim on the NI record of his/her spouse or civil partner. It was replaced by the new State Pension for those reaching State pensionable age after 5 April 2016.

BENEFICIARY A person entitled to benefit under a pension scheme or who will become entitled on the occurrence of a specific event.

BUY-IN The purchase by trustees of an occupational pension scheme of an insurance policy in the name of the trustees. This remains an asset of the trustees.

BUY-OUT The purchase by trustees of an occupational pension scheme of an insurance policy in the name of a member or other beneficiary, in lieu of entitlement to benefit from the scheme, following termination of the member's pensionable service.

CASH EQUIVALENT The amount that a member of a pension scheme may require to be applied as a **transfer payment**.

CASH TRANSFER SUM The amount that a leaver with at least three months' pensionable service but without preserved benefits may require to be applied as a **transfer payment**, as an alternative to a refund of contributions.

CLOSED SCHEME A scheme that does not admit new members. RPF is a closed scheme (although it could be re-opened if the trustees and the employer so decide).

COMMUTATION The forgoing of a part or all of the pension payable from retirement for an immediate lump sum benefit.

CONTRACTED OUT/CONTRACTED IN A pension scheme was contracted out where it provided benefits in place of **State Earnings-Related Pension Scheme (SERPS)** or S2P and was given a contracting-out certificate by HMRC. Members were contracted out if in employment that was contracted out by reference to an occupational pension scheme. A pension scheme was commonly called contracted in where it was not contracted out, i.e. it provided benefits in addition to S2P.

DEFERRED MEMBER/DEFERRED PENSIONER A member entitled to **preserved benefits**.

DEFINED BENEFIT (DB) SCHEME A scheme where its rules define the benefits independently of the contributions payable, and benefits are not directly related to the investments of the scheme. RPF is a Defined Benefit scheme.

DEPENDANT For HMRC purposes:

- (1) a person who was married to, civil partner of or financially dependent on the member, or dependent on the member because of physical or mental impairment, at the date of the member's death, is a dependant of the member, *and*
- (2) a child of the member is a dependant of the member if the child has not reached the age of 23, or has reached age 23 and, in the opinion of the **scheme administrator**, was at the date of the member's death dependent on the member because of physical or mental impairment.

DISCONTINUANCE The cessation of the liability of the sponsoring employer to pay contributions to a pension scheme.

DISCRETIONARY INCREASE An increase to a pension in payment or to a preserved benefit arising on a discretionary basis, i.e. other than from a system of escalation or indexation. Such an increase may be of a regular or an ad hoc nature.

EMPLOYER COVENANT The extent of the employer's legal obligation and financial ability to support its pension scheme now and in the future.

ENHANCED LIFETIME ALLOWANCE This is where the standard lifetime allowance has been increased as a result of primary protection, pension credits or transfers from overseas pension schemes, or where the member has not always had taxable UK earnings or been resident in the UK.

EXPRESSION OF WISH A means by which a member can indicate a preference as to who should receive any lump sum death benefit. The choice is not binding on the trustees, and, as a result, inheritance tax is normally avoided.

FINAL PENSIONABLE EARNINGS/PAY/SALARY The pensionable earnings on which the benefits are calculated in a **Defined Benefit** scheme. The earnings may be based on the average over a number of consecutive years prior to retirement, death or leaving pensionable service.

FLEXIBLE BENEFITS Money purchase benefits, cash balance benefits, and other benefits calculated by reference to an amount available for their provision.

FROZEN SCHEME A scheme with no further benefits accruing.

GUARANTEED ANNUITY RATE The right to apply the proceeds of an arrangement to buy an annuity at a rate guaranteed under that arrangement.

GUARANTEED MINIMUM PENSION (GMP) The minimum pension that an occupational pension scheme must provide as one of the conditions of contracting out for pre-6 April 1997 service (unless it was contracted out through the provision of protected rights).

INDEPENDENT TRUSTEE An independent trustee must be registered and an independent person in relation to the scheme. This requirement will be satisfied if he or she has no interests in the assets of the employer or scheme and is not connected with the employer, insolvency practitioner or official receiver.

INDEXATION A system whereby pensions in payment and/or preserved benefits are automatically increased at regular intervals by reference to a specified index of prices or earnings.

LIFETIME ALLOWANCE The lifetime allowance is an overall ceiling on the amount of tax-privileged savings that an individual can draw. Some individuals have a higher allowance.

LOWER EARNINGS LIMIT (LEL) A threshold, the annual equivalent of which is the minimum that must be earned in a year in order for an individual to accrue State Pension benefits.

NEW STATE PENSION The flat-rate State Pension that replaced the Basic Pension and State Second Pension for those reaching State pensionable age after 5 April 2016.

NOMINEE An individual, other than a dependant of the member, nominated by the member or **scheme administrator** to receive pension from a money purchase arrangement after the member's death.

NORMAL MINIMUM PENSION AGE The earliest age, currently 55, at which a member is allowed to draw benefits from a registered pension scheme, other than in ill health. Transitional provisions allow members to protect existing rights at 5 April 2006 to receive their benefits from an earlier age.

NORMAL PENSION AGE (NPA)

- (1) Commonly the age by reference to which the normal pension date is determined.
- (2) The main statutory definition (relevant for preservation and contracting-out purposes) is the earliest age at which a member is entitled to receive benefits (other than **Guaranteed Minimum Pension**) on his/her retirement from employment to which the scheme relates, ignoring any special provisions as to early retirement on grounds of ill health or otherwise. This is commonly interpreted to mean the earliest age at which a member has the right to take benefits without reduction.
*This may be different from definition (1) above or **normal retirement age**.*

NORMAL PENSION DATE (NPD) The date at which a member of a pension scheme normally becomes entitled to receive retirement benefits.

NORMAL RETIREMENT AGE (NRA) For employment purposes the age at which the employees holding a particular position normally retire from service. This is often (but not always) the same as **normal pension age**. The age of a member of an occupational pension scheme at the normal retirement date as specified in the scheme rules.

NORMAL RETIREMENT DATE (NRD) The date (usually the date of reaching a particular age) specified in the rules of an occupational pension scheme at which a member would normally retire.

PENSION COMMENCEMENT LUMP SUM The term for the tax-free cash sum that may be paid to a member on taking pension benefits.

PENSION CREDIT The amount of benefit rights that an ex-spouse of a scheme member becomes entitled to following a **pension sharing order**.

PENSION GUARANTEE An arrangement whereby, on the early death of a pensioner, the pension **scheme pays** a further sum or sums to meet a guaranteed total.

PENSION PROTECTION FUND (PPF) A fund set up to provide benefits to members of **Defined Benefit** schemes that wind up due to the employer's insolvency with insufficient assets to pay benefits.

PENSION SCAM The transfer (or release) of a member's pension savings to an arrangement that is illegitimate and/or inappropriate. Sometimes referred to as pensions liberation.

PENSION SHARING ORDER An order making provision for the pension rights of a scheme member to be split on divorce.

PENSIONABLE EARNINGS/PAY/SALARY The earnings on which contributions and/or benefits are calculated under the rules of an occupational pension scheme.

PENSIONABLE SERVICE The period of service that is taken into account in calculating benefits.

PENSIONS OMBUDSMAN The Pensions Ombudsman deals with disputes about entitlement and complaints of maladministration from members of occupational pension schemes and personal pension schemes.

PENSIONS REGULATOR (The Regulator, TPR) An independent body set up to regulate occupational pension schemes.

PERSONAL LIFETIME ALLOWANCE The lifetime allowance applicable to individuals who have registered for primary protection. It is indexed in line with changes in the standard lifetime allowance but taking that allowance to be at least £1.8 million for tax years following 5 April 2012.

PERSONAL PENSION SCHEME A scheme provided by an insurance company (or another financial institution) to enable individuals to save for retirement.

PRESERVED BENEFITS Benefits arising on an individual ceasing to be an active member of an occupational pension scheme, payable at a later date.

PRINCIPAL EMPLOYER Commonly used in scheme documentation for the particular participating employer in which is vested special powers or duties in relation to such matters as the appointment of the trustees, amendments and winding up. Usually this will be the employer that established the scheme or its successor in business.

PURCHASED LIFE ANNUITY An annuity purchased privately by an individual. Instalments of the annuity are subject to tax in part only.

QUALIFYING EARNINGS The band of gross earnings between limits set each year on which minimum contributions for the purposes of automatic enrolment are calculated.

RECOGNISED OVERSEAS PENSION SCHEME (ROPS) An overseas pension scheme that is established and recognised in a prescribed country and satisfies all prescribed requirements.

RECOVERY PLAN If an **actuarial valuation** shows that the **statutory funding objective** is not met, the trustees will have to prepare a recovery plan setting out the steps to be taken (and over what period) to make up the shortfall.

SCHEDULE OF CONTRIBUTIONS A schedule specifying the contribution rates and payment dates (normally) agreed between the employer and the **trustees** of a **Defined Benefit** scheme and certified by the **scheme actuary** as being adequate to satisfy the **statutory funding objective**.

SCHEME ACTUARY The named actuary appointed by the **trustees** or managers of an occupational pension scheme.

SCHEME ADMINISTRATOR The person or persons notified to HMRC as being responsible for the management of a pension scheme.

SCHEME AUDITOR The auditor appointed by the **trustees** or managers of an occupational pension scheme.

SCHEME PAYS Where a member's pension savings exceed the annual allowance for the tax year, the member can oblige (or in some cases ask) the scheme to pay all or part of the charge on their behalf and reduce their benefit entitlement accordingly.

SERIOUS ILL HEALTH COMMUTATION Full commutation of benefits if a member's life expectancy is less than 12 months.

STATE EARNINGS-RELATED PENSION SCHEME (SERPS) The additional pension provisions of the State pension scheme. This was replaced by the State Second Pension (S2P) from 6 April 2002.

STATE PENSIONABLE AGE (SPA) The age from which pensions are normally payable by the State pension scheme.

STATEMENT OF INVESTMENT PRINCIPLES (SIP) A written statement of principles governing decisions about investment for an occupational pension scheme, which **trustees** are required to prepare and maintain. **Trustees** must have regard to advice from a suitably qualified person and consult with the employer.

STATEMENT OF RECOMMENDED PRACTICE (SORP) Guidance on best accounting practice for the presentation of financial information prepared by the particular industry to which the SORP relates.

STATUTORY EMPLOYER In a **Defined Benefit** scheme, the employer legally responsible for meeting the **statutory funding objective**, paying any debt and triggering entry to the **PPF**.

STATUTORY FUNDING OBJECTIVE The requirement that a **Defined Benefit** scheme must have sufficient and appropriate assets to cover its **technical provisions**.

SUMMARY FUNDING STATEMENT A summary of the scheme's funding position. It must be issued, normally annually, to all scheme members and beneficiaries. Certain schemes, such as those in wind-up, are exempt.

TECHNICAL PROVISIONS The amount required on an actuarial calculation to make provision for the scheme's liabilities.

TRANSFER PAYMENT A payment made from a pension scheme to another pension scheme, or to purchase a **buy-out** policy, in lieu of benefits that have accrued to the member or members concerned, to enable the receiving arrangement to provide alternative benefits.

TRIVIAL COMMUTATION Payment of a member's rights under a **defined benefit** arrangement as a lump sum, permitted subject to certain conditions if the member's total pension rights are valued below a specified amount.

TRUST A legal concept whereby property is held by one or more persons (the **trustees**) for the benefit of others (the beneficiaries) for the purposes specified by the trust instrument. The trustees may also be beneficiaries.

TRUST DEED A legal document, executed in the form of a deed, which establishes, regulates or amends a trust.

TRUSTEE An individual or company appointed to carry out the purposes of a **trust** in accordance with the provisions of the **trust deed** (or other documents by which a trust is created and governed) and general principles of trust law.

TRUSTEE REPORT A report by the **trustees** describing various aspects of an occupational pension scheme. It may form part of the annual report.

WINDING UP The process of terminating an occupational pension scheme (or less commonly a personal pension scheme), usually by applying the assets to the purchase of immediate annuities and deferred annuities for the beneficiaries, or by transferring the assets and liabilities to another pension scheme, in accordance with the scheme documentation or statute.

SOURCE: Pensions Pocket Book published by Aon 2018

This guide is provided for the information of members. It covers common terminology used for UK registered pension schemes, and includes references to tax. Members are advised to take further advice on their personal status, if in doubt.