

GLOSSARY OF TERMS - PENSIONS

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Note:- some of the definitions refer to Guidance Note 26 (GN26) of the Faculty and Institute of Actuaries of which a copy is obtainable from www.actuaries.org.uk

Accrual rate : the rate at which pension rights build up for each year of service in a defined benefit scheme.

Accrued benefits :- The benefits for service up to a given point in time, whether vested rights or not. They may be calculated in relation to current earnings or projected earnings (allowance may also be made for revaluation and/or pension increases required by the scheme rules or legislation) .

Accrued Benefits Funding Method - see Guidance Note GN26 (Manual of Actuarial Practice).

Active member :- A member of an benefit scheme who is at present accruing benefits under that scheme in respect of current service.

Actuarial liability :- see Guidance Note GN26

Actuarial surplus :- see Guidance Note GN26

Actuarial value of assets :- see Guidance Note GN26

Additional Voluntary Contributions (AVCs) :- additional contributions (i.e. over and above a member's normal contributions, if any) which the member elects to pay to the scheme in order to secure additional benefits.

Aggregate Funding Method :-see Guidance Note GN26

Advising actuary :- an actuary who is not appointed as a Scheme Actuary but who is appointed a "professional adviser" as defined in Section 47(4) of the Pensions Act 1995.

Appropriate personal pension scheme :-an appropriate personal pension scheme is a personal pension scheme or free standing AVC scheme granted an appropriate scheme certificate by the Occupational Pensions Board, enabling its members to use it for the purposes of contracting out.

Approved scheme :- an approved scheme is a retirement benefits scheme which is approved by the Inland Revenue under Chapter 1 of Part XIV of Income and Corporation Tax Act 1988 (ICTA 88), including a free standing AVC scheme. The term may also be used to describe a personal pension scheme approved under Chapter IV of that Part.

Attained Age Funding Method :- see Guidance Note GN26

Average earnings scheme :- a scheme where the benefit for each year of membership is related to the pensionable earnings for that year.

Amortisation :-the spreading of an actuarial surplus or deficiency over an appropriate period.

Balance of cost scheme :- a defined benefits scheme to which beneficiaries make a defined contribution and the main sponsor pays the remainder of the unknown cost of providing the benefits.

Book reserve :- a provision in a company's accounts for a future benefit liability for which no funds have been set aside.

Bulk transfer :- The transfer of liabilities (and usually assets), relating to a group of members, from one scheme to another.

Cash balance scheme :- a scheme in which the benefits are expressed in terms of a fund value which accumulates through indexation of the fund and the addition of future accrual. The accumulated fund value is used to purchase the required form of benefits when those benefits become due.

Cash equivalent :- the amount which a member of a pension scheme may, under section 94 Pension Schemes Act 1993, require to be applied as a transfer payment to another permitted pension scheme or to a buy out policy.

Centralised scheme:- see Multi-employer scheme

Closed scheme :- a scheme which does not admit new members. (Contributions may or may not continue and benefits may or may not be provided for future service.)

Commutation :- the giving up of a part or all of the pension payable from retirement for an immediate lump sum.

Compulsory purchase annuity (CPA) :- an annuity which must be purchased on retirement for a member of an insured occupational pension scheme.

Contribution holiday :- a period during which employers' and/or members' contributions are temporarily suspended, normally when the fund is in surplus. (The term is sometimes used loosely when contributions continue to be paid but at a reduced rate.)

Contribution method :- this is the most common method of distributing surplus in the countries of the Pacific Rim and involves the payment of a cash dividend to with profit policyholders.

Control period :- see Guidance Note GN26

Contract out :- the use of a pension scheme which meets certain conditions to provide benefits (GMPs, protected rights or section 9(2B) rights) in place of SERPS.

Corporate trustee :- a company which acts as a trustee.

CPA :- see Compulsory purchase annuity

Current Unit Funding Method :- see Guidance Note GN26

Deferred member :- a member no longer accruing benefits but who has accrued benefits that will be payable at a future date.

Deferred pay :- payment for services as an employee that are made after the period during which the employer benefited from those services.

Deficit/Underfunding :- where a scheme has assets less than required by the funding plan for meeting the liabilities.

Defined Accrued Benefit Funding Method :- see Guidance Note GN26

Defined benefit scheme :- a scheme where the scheme rules define the benefits independently of the contributions payable, and benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded.

Defined contribution scheme :- a scheme providing benefits on a money purchase basis

Dependant :- a person who is financially dependent on a member or pensioner or was so at the time of death or retirement of the member or pensioner. Scheme rules may define a dependant differently.

Discontinuance :- the cessation of contributions to a pension scheme leading either to winding up or to the scheme becoming a paid up scheme.

Discontinuance valuation :- an actuarial valuation carried out to assess the position if the scheme were to be discontinued. The valuation may take into account the possible exercise of any discretion to augment benefits.

Drawdown/Income withdrawal

Durability (of a funding method) :- a funding method is durable if the contribution rate remains stable if a major event happens to the membership of the scheme. For example closure of the scheme to new entrants or a large influx of new entrants.

Dynamised (or revalued) earnings :- used to describe index linking of earnings for calculating benefits.

Early leaver :- a person who ceases to be an active member of a scheme, other than on death, without being granted an immediate retirement benefit.

Earnings cap :- limitation introduced by Finance Act 1989 on the amount of remuneration on which the benefits and contributions of a member who is subject to the Inland Revenue post 89 maximum benefit limits (i.e. a member without continued rights) may be based. This was set at £60,000 for tax year 1989/90, and is usually increased annually in line with prices. The same limitation applies to net relevant earnings for all members of personal pension schemes for tax years 1989/90 onwards.

Effective date :- the date to which the valuation of the liabilities (or assets) of a scheme relate.

Entry Age Funding Method :- see Guidance Note GN26

Exempt approved scheme :- an exempt approved scheme is an approved scheme (other than a personal pension scheme) which is established under irrevocable trusts (or exceptionally, subject to a formal direction under Section 592(1)(b) of Income and Corporation Tax Act 1988) thus giving rise to the tax reliefs specified in Income and Corporation Tax Act 1988.

Expression of wish :- a means by which a member can indicate a preference as to who should receive any lump sum death benefit.

Final remuneration :- the maximum amount of earnings which the PSO will permit to be used for the purpose of calculating maximum approvable benefits.

Final salary scheme :- a defined benefit scheme where the benefit is calculated by reference to the final earnings of the member, usually also based on pensionable service.

Flexible benefits :- benefit provision under which the beneficiary has choice about the types or levels of benefits to be received. Will usually involve an option to receive salary instead of other forms of benefits.

Free Standing Additional Voluntary Contributions (FSAVCs) :- contributions to a pension contract separate from an occupational pension scheme, effected by an active member of that scheme. Benefits are secured with a pension provider by contributions from the members only.

FSAVC: - see Free Standing Additional Voluntary Contributions

Funding level :- see Level of funding

Funding objective :- the arrangement of the incidence over time of payments with the aim of meeting the future cost of a given set of benefits.

Funding plan :- the timing of payments of contributions with the aim of meeting the cost of a given set of benefits under a defined benefit scheme.

Funding ratio :- see Guidance Note GN26

GMP :- see Guaranteed Minimum Pension

Group personal pension scheme (GPP Scheme) :- an arrangement made for employees of a particular employer, or for a group of self-employed individuals, to participate in a personal pension scheme on a grouped basis. This is not a single scheme, merely a collecting arrangement.

Guaranteed minimum pension (GMP) :- the minimum pension which 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). For an employee contracted out under any occupational or personal pension scheme an amount equal to the GMP is deducted from his/her benefits under the state scheme.

Hybrid scheme :- a scheme which offers both defined benefit and defined contribution sections or benefits which are the better of a defined benefit and a benefit on a defined contribution basis.

Income withdrawal :- withdrawal of income, from a SSAS, personal pension or defined contribution scheme, while annuity purchase is deferred.

Independent trustee :- an individual or corporate body with no direct or indirect involvement with the pension scheme, employer or members, other than performing the duties of the trustee. (

Individual Entry Age Funding Method :- a method similar to the Entry Age method but a separate contribution is determined for each member of the scheme.

Insured scheme :- a scheme where the sole long term investment medium is an insurance policy (other than a managed fund policy).

LEL :- see Lower Earnings Limit

Level of funding :- the relationship at a specified date between the actuarial value of the assets and the actuarial liability. Normally expressed as a percentage.

Liquidity (of a funding method) :- the ability of a funding method to meet cash outgo as required.

Lower Earnings Limit (LEL) :- the minimum amount, approximately equivalent to the basic state pension, which must be earned in any pay period before National Insurance contributions are payable.

Member :- a person who has been admitted to membership of a pension scheme and is entitled to benefit under the scheme.

Member-nominated trustees :- a person who becomes a trustee of an occupational pension scheme (under appropriate rules or prescribed rules) under arrangements required by section 16(1) Pensions Act 1995 for members of the scheme to select them.

MFR :- see Minimum Funding Requirement

Minimum Funding Requirement (MFR) :- a requirement under section 56 Pensions Act 1995 that, under a prescribed set of actuarial assumptions, the actuarial value of assets of a defined benefit scheme should not be less than its actuarial liabilities.

Modified contribution rate :- see Guidance Note GN26

Money purchase scheme :- the determination of an individual member's benefits by reference to contributions paid into the scheme in respect of that member, usually increased by an amount based on the investment return on those contributions.

Multi-employer scheme/Centralised scheme :- an occupational pension scheme operated on behalf of several employers.

Occupational scheme :- a scheme organised by an employer or on behalf of a group of employers to provide benefits for or in respect of one or more employees.

Overfunding (or surplus) :- see Actuarial surplus

Pace of funding :- the rate of progress towards the objective of the funding plan.

Partly Projected Unit Funding Method :- see Guidance Note GN26

Pay-As-You-Go :- an arrangement under which benefits are paid out of revenue and no funding is made for future liabilities

Pension costs :- the cost of providing pensions, which is charged to the profit and loss account of the employer. The amount may be more or less than the actual payments made to the scheme.

Pension equity scheme :- a scheme in which the benefits are expressed in terms of a fund value related to final salary, which accumulates through indexation of the fund, in

line with salary growth, and the addition of future accrual. The accumulated fund value is used to purchase the required form of benefits when those benefits become due.

Pensioner trustee :- an individual or company with pensions experience appointed in accordance with the requirements relating to the approval of Small Self Administered Schemes (SSASs) under Income and Corporation Taxes Act 1988 to act as a trustee of such a scheme

Personal pension scheme :- a scheme approved under Chapter IV of Part XIV of Income and Corporation Taxes Act 1988, under which an individual who is self-employed or in non pensionable employment, or employed but not a member of an occupational pension scheme except a death in service only arrangement, can make pension provision.

Preservation :- the granting by a scheme of preserved benefits to a member leaving pensionable service under an occupational pension scheme before normal pension age, in particular in accordance with minimum requirements specified by Pension Scheme Act 1993.

Projected Accrued Benefit Funding Method :- see Guidance Note 26

Projected Unit Funding Method :- see Guidance Note GN26

Prospective Benefits Funding Method :- see Guidance Note GN26

Prospective member :- an individual, not currently a member of an occupational scheme of his/her employer, who is either entitled to join or will become eligible to join in the future by virtue of continuing in employment with the employer.

Protected rights :- the benefits from a scheme contracted out on a money purchase basis, deriving respectively from at least the minimum contributions or minimum payments, which are provided in a specified form as a necessary condition for contracting out. The term may also be used in a general sense to describe rights given to certain members on change of rules or change of pension scheme which are superior to those of a new entrant.

Public sector pension scheme :- an occupational pension scheme for employees of central or local government, a nationalised industry or other statutory body.

Reference Scheme :- the standard scheme specified under section 12B Pension Scheme Act 1993 against which the benefits of a COSRS must be compared in order to remain contracted out after 5 April 1997 on that basis.

Retained benefits :- retirement or death benefits in respect of an employee deriving from an earlier period of employment or self employment. In some circumstances retained benefits must be taken into account in the maximum approvable benefits.

Retirement annuity contract :- an annuity contract between an insurance company or friendly society and a self-employed individual or a person in non-pensionable employment, which was established before 1 July 1988 and is approved under Chapter III Part XIV of Income and Corporation Taxes Act 1988.

Revalued average earnings scheme :- a scheme in which the benefits accrue in relation to an individual's earnings indexed from the year of receipt to the year when the benefits become due.

Salary sacrifice :- an agreement between the employer and employee whereby the employee forgoes part of his/her future earnings in return for a corresponding contribution by the employer to a benefit scheme.

Salary scale :- an index of salaries, by age or service, for a group of employees.

Schedule of contributions :- a schedule specifying contribution rates and payment dates, (normally) agreed between the employer and the trustees and certified by the scheme actuary as being adequate to satisfy the MFR for the period concerned.

Scheme Actuary* :- the named actuary appointed by the trustees or managers of an occupational pension scheme under section 47 Pensions Act 1995.

Security (of a funding method) :- the ability of a funding method to ensure that there will be sufficient assets to meet a scheme's liabilities.

Self-administered scheme :- an occupational scheme where the assets are invested, other than wholly by payment of insurance premiums with an in house investment manager or an external investment manager.

Self investment :- the investment of the assets of an occupational scheme in employer related investments.

SERPS :- see State Earnings Related Pension Scheme

Service :- A period of employment with an employer which counts for benefit accrual.

Small self-administered scheme (SSAS) :- a self administered occupational pension scheme with generally less than 12 members where at least one of those members is connected with another member or with a trustee or an employer in relation to the scheme. These schemes are subject to certain special condition for approval, including the requirement for a pensioner trustee.

SSAS :- see Small self-administered scheme

Stability (of a funding method) :- the ability of a funding method to produce a Standard Contribution Rate which is not greatly affected by fluctuations in experience.

Standard Contribution Rate :- see Guidance Note GN26

State Earnings Related Pension Scheme (SERPS) :- the additional pension provision of the State pension scheme.

SIP:- see Statement of Investment Principles

Statement of Investment Principles (SIP) :- a written statement of the 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.

Terminal funding :- an arrangement whereby a payment to meet the present value of a benefit is made only at or about the time when the benefit is due to commence.

Total remuneration :- the value of all benefits, including salary, provided to, or accruing to, an individual in relation to a period of employment

Transfer club :- a group of employers and occupational pension schemes which has agreed to a common basis of transfer payments.

Transfer value :- the amount of the transfer payment which is made to another pension arrangement.

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 instrument and general principles of trust law.

UEL :- see Upper Earnings Limit

Underfunding :- see deficit

Unfunded scheme :- a scheme where assets are not accumulated in advance of the benefits commencing to be paid.

Upper Band Earnings :- earnings between the lower earnings limit and the upper earnings limit for National Insurance Contributions.

Upper Earnings Limit (UEL) :- the maximum amount of earnings (equal to approximately seven times the lower earnings limit) on which National Insurance contributions are payable by employees.

Vested rights :- benefits to which a member of a scheme is entitled whether or not they remain an active member of the scheme.

waiting period/qualifying period :- in the case of occupational pension provision, the period during which an employee does not yet meet the eligibility conditions for membership of the occupational scheme. In the case of sickness benefits, the period of sickness that must elapse before a benefit becomes payable.

whistle blowing :- the statutory duty imposed on the scheme actuary and the scheme auditor by section 48 Pensions Act 1995 to advise OPRA immediately in writing if they have reasonable cause to believe there is a material problem with an occupational pension scheme. Other persons may "blow the whistle" but have no statutory duty to do so.

winding-up :- the process of terminating a scheme, usually by applying the assets to the purchase of individual insurance contracts for the beneficiaries, or by transferring the assets and liabilities to another scheme

withdrawal benefit :- a benefit payable when an employee leaves employment.