

PENSIONS GLOSSARY

INTRODUCTION

The enclosed Glossary lists some common pensions terms to enhance understanding of pension terminology. It gives a flavour of the meaning rather than the exact legal meaning.

The legal meaning may depend on many matters including the scheme's trust deed or rules and/or any relevant legislation (which may be overriding or optional). Specific advice should always be obtained.

If you need advice or have any queries, please contact your usual Wedlake Bell pensions adviser.

If you would like any further terms included in the Glossary, please email the editor: cweber@wedlakebell.com

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A

A-Day: 6 April 2006, when the tax provisions of Finance Act 2004 introducing Registered Pension Schemes came into force.

Accrual Rate: in a DB scheme, the rate at which benefit accrues for each year of Pensionable Service.

Active Member: a scheme member who is continuing to accrue scheme benefits being in current Pensionable Service.

Actuarial Valuation: an assessment carried out by an Actuary to determine the financial ability of a scheme (typically a Defined Benefit scheme) to meet its liabilities.

Annual Allowance: maximum amount by which a member's benefits may build up annually under a Registered Pension Scheme without incurring the Annual Allowance tax charge.

Annuity: a fixed income (sometimes increasing), receivable for the life of the recipient or a specified period, which is secured by the payment of a capital sum.

Anti-Franking: legislation generally prevents statutory increases to GMPs being offset against other scheme benefits (instead of being added to total benefits).

APL: the association of pension lawyers.

Approval: the pre- 6 April 2006 system of the Inland Revenue approving pension schemes for tax purposes.

Assessment Period: the period for which the Pension Protection Fund assesses whether the PPF will, or will not, assume responsibility for the scheme.

Augmentation: additional benefits provided in respect of a particular member, or category of members, of a scheme.

Authorised Payment: a scheme payment authorised under Finance Act 2004 and so not giving rise to an unauthorised payment tax charge.

Auto-enrolment: statutory requirements to enrol eligible jobholders in a qualifying scheme.

AVCs: additional contributions paid voluntarily by a member of an occupational pension scheme.

B

Barber: the decision of the European Court of Justice on 17 May 1990 in *Barber v Guardian Royal Exchange* relating to pensions being “pay” for the purposes of European Law and therefore within the EU principle of men and women being entitled to equal pay for equal work. This process of equalising benefits is often referred to as “equalisation”.

BCE: benefit crystallisation event under FA 2004 occurring prior to 6 April 2024 (see also RBCE).

Beneficiary: generally a person actually or prospectively in receipt of a pension or lump sum under a pension scheme. In a broader sense it may include any person or organisation which derives a benefit from the scheme and in this context can include a participating employer.

Benefit Crystallisation: member becoming entitled to immediate pension benefits including where such benefits are designated for Drawdown; a trigger for testing the value of the member’s benefits against the member’s available Lifetime Allowance.

Bulk transfer: the transfer of the accrued rights of a group of members from one occupational pension scheme to another.

Buy-in: where trustees buy a policy as a scheme investment to provide pension benefits for which the trustees continue to have direct responsibility to provide.

Buy-out: where trustees transfer member liabilities out of a scheme to e.g. an insurer, so that the scheme trustees are no longer responsible for paying the benefit and the members cease to be scheme members.

C

CARE Scheme: scheme benefits based on career average revalued earnings.

Cash equivalent transfer value (CETV): the value of a member’s scheme benefits calculated on a statutory minimum basis and for which the member has an entitlement to require a transfer to another scheme or other appropriate arrangement.

CJEU: court of justice of the European union (previously known as the European court of justice).

Clearance: an employer obtaining confirmation from the Pensions Regulator (“TPR”) that TPR will not exercise certain anti-avoidance powers.

Closed scheme: generally, a scheme closed to new members, or a scheme closed to new members and closed to accrual for future service.

CN: Contribution Notices issued by The Pensions Regulator (TPR) under Pensions Act 2004 as amended.

Code of Practice: TPR issues Codes of Practice to assist the good running of pension schemes. Such Codes are laid before Parliament and may be taken into account by the Courts. TPR plans to replace the 14 existing different Codes with a new Single Code during 2022. See also Code-related Guidance.

Code-Related Guidance: TPR’s practical Guidance aiming to make its Codes of Practice more meaningful.

Commutation: converting part (or sometimes the whole) of a pension to a lump sum.

Contracted-out: a scheme which prior to 6 April 2016 provided certain benefits in lieu of part of state pension benefits.

Conversion: converting one type of benefit into another e.g. a pension into a lump sum. See also GMP Conversion below.

COP: United Nations Conference of Parties on Climate Change, last held in Glasgow November 2021.

CPI: Consumer Prices Index.

CPIH: Consumer Prices Index with Housing Component.

D

DAP: dashboard available point, a date to be specified by notice by the Secretary of State for Work and Pensions, for the public to access Pension Dashboards. The DAP is expected to be not earlier than 31 October 2026.

DB: Defined Benefit scheme under which members’ benefits are calculated by reference to their Pensionable Service and Final Pensionable Salary (or such other definitions as the scheme uses e.g. pensionable earnings).

DC: Defined Contribution scheme under which members’ benefits depend on the value of their pension savings.

Debt on Employer: where an employer in a defined benefit scheme is due to pay an amount to the scheme trustees under the Debt Legislation.

Debt Legislation: the pensions legislation setting out the circumstances in which an employer or former employer in a defined benefit scheme is liable to pay an amount to a scheme on exiting the scheme.

Deferred Member: a scheme member who is no longer an Active Member no longer accruing and has not started to receive scheme pension benefits.

Deferred Pension: pension payable in due course to a Deferred Member.

Deficit: in a DB or Hybrid scheme, the amount by which scheme assets are less than scheme liabilities on the scheme's valuation basis.

Dependant: a person financially dependent on a member or former member.

Drawdown: a process whereby a scheme member is entitled to draw an amount from the member's pension fund.

DRC: deficit reduction contributions in connection with funding of DB Scheme.

DWP: the Department of Work and Pensions.

E

Early Leaver: a member ceasing to be in Pensionable Service before NRD.

Earnings Cap: limit on earnings that are pensionable under a pre- 6 April 2006 Inland Revenue approved scheme.

EFRBS: employer-financed retirement benefits scheme.

Equalisation: see above under Barber and below under GMP Equalisation.

ERI: employer-related investment.

ESG: environmental, social and governance.

ETV: enhanced transfer value over and above the minimum statutory transfer value.

Expression of Wishes form: form for a member expressing wishes about death benefits.

F

FA 2004: Finance Act 2004.

FCA: Financial Conduct Authority.

Final Pensionable Salary: a member's pay at or near the time the member ceases to be an Active Member of a scheme.

Final Salary Scheme: a scheme under which members' benefits are calculated by reference to their Final Pensionable Salary.

Flexible Access: facility for a member to access their DC benefit in a flexible way.

FSDs: financial support directions issued by TPR under its anti-avoidance powers.

FTT: First Tier Tribunal (for pensions tax cases); see also UTT below.

FURBS: funded unapproved retirement benefits scheme.

G

GAD: Government Actuary's Department.

Guaranteed Annuity Rates (GAR): a provider's guaranteed minimum level of annuity.

Guaranteed Minimum Pension (GMP): an amount of pension earned by members of certain contracted-out schemes.

GMP Conversion: changing GMP pension benefits into non – GMP pension benefits into Section 24A to 24H, Pension Schemes Act 1993.

GMP Equalisation: scheme trustees' obligations under "Barber" (see above) to equalise contracted out (GMP) scheme benefits to the extent required.

Guarantee Period: balance of five years' pension payments payable on Pensioner dying within five years of pension commencing.

H

HMRC: Her Majesty's Revenue & Customs.

Hybrid Scheme: a scheme offering a mix of DB and DC benefits.

I

IAS: international accounting standards.

IDRP: internal dispute resolution procedure.

IFA: independent financial adviser.

IHT: inheritance tax.

IR Limits: Inland revenue limits being the tax approved limits prior to 6 April 2006.

IMA: investment management agreement.

Inflation: rise in prices or other increase in cost of living.

ISDA: international swaps and derivatives association.

J

Jobholder: for the purposes of auto - enrolment, a person who qualifies as a jobholder.

Judicial Review: a Court process challenging Government decisions/legislation. For instance, the Government's decision to change the calculation of the Retail Prices Index is due to be judicially reviewed, expected in August 2022.

JWG: a joint working group of organisations in the pensions industry.

K

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L

LA/LTA: Lifetime Allowance (maximum value of tax favoured benefits under a Registered Pension Scheme prior to 6 April 2024).

LDI: liability driven investment.

Liberation: extracting pension benefits from registered pension schemes in deliberately unauthorised ways and usually resulting in a tax charge.

Lower Earnings Limit: minimum earnings level for state pension benefit purposes.

LPI: limited price indexation (eg X% per year in line with a chosen index, up to a cap eg 5%).

LSA: Lump Sum Allowance (lump sum tax allowance fixed at a maximum of £268,275 from 6 April 2024 potentially available for a member under a registered pension scheme)

LSDBA: Lump Sum and Death Benefit Allowance (lump sum tax allowance fixed at a maximum of £1,073,100 potentially available for a member under a registered pension scheme)

LTA Charge: tax charge on excess of members' benefits under a Registered Pension Scheme.

M

MaPS: Money and Pensions Service, being an executive non-departmental public body with various functions including in relation to Pensions Dashboard Services.

Master Trust: broadly, an occupational pension scheme providing money purchase benefits, in which two or more unconnected employers participate.

Member: a person who has joined a pension scheme and is entitled to benefits under the scheme.

Minimum Pension Age: the earliest age a member can normally commence receipt of their scheme benefits.

MND: Member-nominated directors (schemes with corporate trustee required to have a minimum number of directors nominated and selected by scheme members).

MNT: Member-nominated trustees (unincorporated trustee boards required to have a minimum number of trustees nominated and selected by scheme members).

Money Purchase Annual Allowance: reduced amount of Annual Allowance applying to money purchase contributions in certain circumstances.

Money Purchase Scheme: scheme benefits depend on value of scheme fund, otherwise known as a DC scheme (defined contribution scheme).

Multi – Employer Scheme: a scheme which has more than one participating employer (or former employer remaining liable).

N

NEST: national employment savings trust, a trust-based defined contribution occupational pension scheme.

NMPA: normal minimum pension age (age 55 from 2010, and intended to be age 57 from April 2028), being the earliest age a member can normally commence receipt of their pension.

Notifiable Event: events notifiable to TPR under section 69 and 69A Pensions Act 2004.

NRA: normal retirement age.

NRD: normal retirement date.

O

Obiter: the part of a Court judgment which is merely persuasive and not legally binding.

Occupational Pension Scheme: essentially, a scheme established by an employer to provide retirement benefits for its employees.

Open Market Option: a member's right to choose the insurer for purchasing an annuity.

P

PASA: pensions administration standards association.

PCELS: pension commencement excess lump sum under FA 2004.

PCLS: pension commencement lump sum under FA 2004.

PDP: Pensions Dashboards Programme overseeing implementation of Pensions Dashboards.

Pension Increase Exchange ("PIE"): a method by which a member, to provide a higher initial pension, gives up part of future pension increases.

Pensionable Service: service with the employer whilst actively accruing benefits in the employer's pension scheme.

Pensioner: a scheme member or dependent of a member who is currently receiving a pension from a pension scheme.

Pensions Dashboard: an online tool for individuals to access information about their pensions. Legislation requires all relevant pension schemes and providers to connect to the Pensions Dashboard by at the latest 31 October 2026.

Pensions Tax Manual ("PTM"): published online by HMRC.

Personal Pension Scheme: A scheme to which the employee contributes to provide retirement and/or death benefits. Employers can contribute to personal pension schemes also but are not obliged to do so, except to comply with auto-enrolment and any contractual obligations.

PO: Pensions Ombudsman.

PPF: Pension Protection Fund.

PPF compensation: PPF compensation payable to members of schemes for which the PPF has accepted responsibility after the Assessment Period. During the Assessment Period the trustees must pay benefits reduced to PPF compensation levels where necessary.

PRA: Prudential Regulation Authority.

Preservation: legislation relating to Deferred Member rights.

Principal Employer: the sole sponsoring employer of a scheme or, where there are several employers participating in a scheme, a particular employer that usually has special powers or duties under the scheme's trust deed and rules (for example, it may have power to agree amendments to the scheme or trigger a winding-up of the scheme).

Protected Rights: minimum benefits accrued in a contracted-out money purchase scheme prior to 6 April 2012.

Public Sector Pension Scheme: a scheme operating in the public (as opposed to private) sector.

PUP: paid up pension for Deferred Pensioner.

Q

Qualifying Period: period of service qualifying a member for a Deferred Pension.

QROPS: Qualifying recognised overseas pension scheme being a scheme established outside the UK meeting conditions specified in Finance Act 2004 as amended.

QNUPS: Qualifying non-UK pension scheme being a form of QROPS.

R

RBCE: a relevant benefit crystallisation event occurring on or after 6 April 2024 (see also BCE).

Recovery Plan: period and terms for paying scheme deficit.

Registered Pension Scheme: a scheme registered with HMRC for tax favoured status.

Retail Prices Index (RPI): an index (still in use in some cases e.g. to provide increases to pensions in payment).

Revaluation: increasing a deferred pension between a member ceasing to be in pensionable service and starting to receive the scheme pension, as specified under Pension Schemes Act 1993 and/or scheme rules.

S

Salary Sacrifice: employer and employee agreement by which the employee gives up part of salary in exchange for a different benefit e.g. employer paying an equivalent amount to the pension scheme.

Schedule of Contributions: in accordance with Pensions Act 2004, records the contributions due to a DB scheme.

Scheme Actuary: an individual actuary appointed by scheme trustees under section 47 Pensions Act 1995.

SERPS: State earnings related pension scheme.

Sex Equalisation: as required under Barber, see above.

SFO: statutory funding objective under Pensions act 2004.

SIHLS: a serious ill-health lump sum under FA 2004.

SIP: statement of investment principles.

SIPP: self-invested personal pension.

SPA: State Pensions Age.

SSAS: small self-administered scheme.

Staging Guidance: published by DWP on 25 March 2024 for schemes and providers to connect to Pensions Dashboard.

State Pension: a pension payable by the State on reaching SPA.

Statutory Instrument: legislation in the form of regulations made under an Act of Parliament.

Superfunds: a collection of DB schemes with special funding arrangements.

Surplus: in connection with DB schemes, excess funds (measured on various bases).

T

Tax free lump sum: maximum tax free lump sum payable under a registered pension scheme as part of member's pension benefits (also known as pension commencement lump sum (PCLS)).

TCFD: Task force on Climate-related Financial Disclosures.

Technical Provisions: amount required to be held in respect of scheme pension liabilities under Pensions Act 2004.

TKU: Trustee Knowledge and Understanding, as required under Pensions Act 2004.

TPs: Technical Provisions – funding basis in connection with funding of DB Schemes

TPAS: the Pensions Advisory Service.

TPR: the Pensions Regulator established under Pensions Act 2004.

TPR Prosecutions: for instance, for breach of the employer-related investment legislation, or for the criminal offences re DB schemes under the Pension Schemes Act 2021.

Transfers: transferring pension rights to a different scheme.

Transfer Values: the amount quoted or guaranteed in respect of a member's pension rights.

Trust Deed: deed containing the trust provisions governing the scheme as amended subsequently.

Trust: cash or assets held by a trustee (the trustee may be a person or a company) for the benefit of another or others; an occupational pension scheme must be under trust and this protects the pension fund.

TUPE: business transfers to which the Transfer of Undertakings Regulations apply.

U

UFPLS: an uncrystallised funds pension lump sum under FA 2004

Unauthorised payment: any payment made by a registered pension scheme that is not specifically authorised by the Finance Act 2004.

Uncrystallised rights: for the purposes of Finance Act 2004, pension rights not yet in payment.

Upper Earnings Limit: the earnings limit above which employees pay reduced rate national insurance contributions.

UTT: Upper Tier Tribunal.

V

Value Data: in connection with Pensions Dashboard, showing how much pension a member has built up and may have when they retire.

W

Waiting Period: period of service with employer before member may be admitted as an Active Member of a scheme.

Whistle blowing: reporting material problems to TPR if required under pensions legislation.

Winding up: usually indicates process of applying the assets of a scheme to provide pension benefits in accordance with the order specified in the scheme rules, taking into any relevant legislation.

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