



The Pensions
Management
Institute

PENSIONS TERMINOLOGY

PMI/PRAG Publication

PENSIONS TERMINOLOGY · 7th Edition



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CAPITA HARTSHEAD



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Management
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PENSIONS TERMINOLOGY

A GLOSSARY FOR PENSION SCHEMES -
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FOREWORD

The PMI/PRAG Pensions Terminology handbook is an essential guide for the pensions industry. PMI and PRAG have used their extensive knowledge and expertise to compile this excellent handbook for everyone working in pensions, and Capita Hartshead is delighted to be associated with this important publication.

With new legislation coming thick and fast, often accompanied by new terms, pensions continue to be a complicated topic. It is therefore vital for organisations such as PMI and PRAG to produce a clear and up to date guide for those in the industry. For 27 years, PMI and PRAG have encouraged us to keep our terminology simple, consistent and accessible, and we are wholeheartedly supportive of this work.

This handbook provides a valuable reference point that ensures all pension practitioners can speak the same language without confusion. In our own experience, as one of the leading providers of pension solutions, it is crucial to have a comprehensive awareness and understanding of pension terminology. Our staff therefore find the handbook a great aid to their work.

Capita Hartshead shares PMI's and PRAG's emphasis on clear and accurate communication. Our approach to communicating with clients and with scheme members is to present information as simply as possible. With lack of understanding often cited as a reason for low public confidence in pensions, straightforward explanations have never been more important. We pride ourselves on our ability to convey complex situations to scheme members, and the PMI/PRAG Pensions Terminology handbook is an invaluable tool in achieving this.

We are looking forward to using this 7th edition of the handbook extensively within our organisation. We hope it will be as useful and helpful to other companies as it has proven to be for Capita Hartshead.

Mike Addenbrooke
 Managing Director
 Capita Hartshead

INTRODUCTION

It is now some 27 years since the first edition of “Pensions Terminology” was produced. It was developed to encourage all pension practitioners to speak the same language. There have been regular reviews since, as the number of terms have increased requiring definition and explanation; this reflects the continuing and increasing complexity of the subject, as well as the quantity of legislation which surrounds it. The current review has been no exception, and there have been a considerable number of new definitions included in this 7th edition.

Once again, The Pensions Management Institute and the Pensions Research Accountants Group worked together to revise and update the text. The Working Party included representatives from the accounting, actuarial, investment, pensions consulting, legal, and scheme management professions, thus providing a wide range of skills and practical experience. A special thank you is extended to everybody who responded to the initial announcement that the revision work was beginning and submitted comments, and for the support given to this publication by both PMI and PRAG.

As in previous Working Parties, the objectives were to:

- (i) provide a brief explanation of terms commonly used in the UK by those professionally concerned with occupational and personal pension schemes, for the assistance of all who have to deal with such schemes, whether at work or in their studies;
- (ii) encourage more effective communication by the use of a common vocabulary.

This edition has been published following the Pensions Act 2004. A further raft of terms has been spawned by the legislation, which require inclusion in the glossary. The Working Party have also examined the existing terms, and adjusted the definition where it was concluded that it was required, sometimes merely to change the name of the government body responsible for the particular pension term or procedure.

Investment matters have become more significant for trustees and their advisers, and therefore the opportunity has been taken to include more investment terms in the glossary, which the Working Party considered were in common use and relevant. The assistance given here by the UBS glossary is gratefully acknowledged.

PMI and PRAG wish to acknowledge the considerable work of the working party in the preparation of this publication.

Constructive comments from users are always welcome, and will be taken into account when the glossary is next updated. If you do have any comments, please send them to The Pensions Management Institute at PMI House, 4-10 Artillery Lane, London E1 7LS.

Copyright to “Pensions Terminology” has been ceded by the Pensions Research Accountants Group to The Pensions Management Institute in recognition of the Institute’s educational role. Attention of users is drawn to the existence of this copyright, but as both organisations are anxious to encourage standardisation of terminology for all those associated with pensions, the use of definitions of individual terms is encouraged. Reproduction of larger sections will normally be permitted on application, provided that such use is acknowledged.

Neither PRAG, nor the members of any working party or committee thereof, can accept any responsibility or liability whatsoever (whether in respect of negligence or otherwise) to any pension scheme trustee or member or third party, wherever situate, as a result of anything contained in or omitted from this publication nor the consequences of reliance or otherwise on the content of this publication.

NOTES ON USING THE GLOSSARY

Actuarial Methods

The Institute of Actuaries and Faculty of Actuaries have produced standard definitions of the most commonly used valuation and funding methods and these have been paraphrased in this glossary. For further details, users should refer to the original document.

Cross References

Bold typeface indicates a term defined elsewhere in the glossary.

Footnotes providing additional information or guidance not forming part of the formal definition are shown in italics.

Abbreviations

The following abbreviations have been used throughout the text:

CA	Companies Act
FA	Finance Act
ICTA	Income and Corporation Taxes Act
PA	Pensions Act
PSA	Pension Schemes Act
SI	Statutory Instrument
SSA	Social Security Act
SSPA	Social Security Pensions Act
s	Section (of an Act)

Other common abbreviations and the recognised initial designations of relevant organisations are listed in the Appendix.

Technical Terms

As a general rule, terms which have the same meaning in the pensions field as in everyday life have been excluded from the glossary - their meanings will be found in any standard dictionary. Some terms have been given a wide and general definition: it should always be remembered that, in particular cases, scheme rules may provide a narrower or more specific meaning.

A list of “old terms” from the previous edition can be found on the PMI website. It was felt that these terms were not current enough for inclusion in the glossary but were not yet ready to be completely deleted. The list has been compiled as a resource to pensions professionals, trustees and students.

A-DAY

The Appointed Day, 6 April 2006, when the new tax regime introduced by FA2004 came into force.

AAF 01/06

Guidance issued by the Audit and Assurance Faculty of the Institute of Chartered Accountants in England and Wales (ICAEW) to provide guidance to **reporting accountants** on undertaking an **assurance engagement** and providing a report in relation to the internal controls of a **service organisation**.

The guidance was issued in June 2006 and replaced FRAG21/94. It is effective for periods ending on or after 31 March 2007, but may be applied earlier.

ABSOLUTE RETURN

An **investment policy/strategy** that aims to achieve a given level of long-term return, often related to cash or gilt yields, rather than a return relative to a specific **benchmark**, index or inflation measure.

ACCELERATED ACCRUAL

Provision by a scheme of an **accrual rate** greater than one sixtieth of **pensionable earnings** for each year of **pensionable service**.

ACCOUNTING BASES

The methods developed for applying fundamental accounting concepts to financial transactions for determining both the accounting period in which income and expenditure should be recognised and the amounts of **assets** and **liabilities** in the **balance sheet** or **net assets statement**.

ACCOUNTING POLICIES

The specific **accounting bases** adopted to present fairly the financial results and position of an organisation.

For a typical large **occupational pension scheme**, these might include decisions on accounting for conversion of foreign currency, the valuation of investments and recognition of dividend income, and the extent to which the **cash basis** is used.

ACCOUNTING STANDARDS BOARD (ASB)

The role of the Accounting Standards Board (ASB) is to issue accounting standards.

Previously published as Statements of Standard Accounting Practice (SSAPs), accounting standards are now issued by the ASB as **Financial Reporting Standards (FRSs)**, though the ASB has adopted standards extant at the time it came into existence. Standards are preceded by Discussion Papers and Exposure Drafts (EDs).

ACCRUAL RATE

The rate at which rights build up for each year of **pensionable service** in a **defined benefit scheme**.

ACCRUALS CONCEPT

The accounting principle whereby revenues and costs are recognised as they are earned or incurred, rather than when money is received or paid. This is in contrast to the **cash basis**.

*Also known as **matching** (see 2nd definition).*

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

A **funding method** in which the **actuarial liability** at the **valuation date** relates to:

- (a) the benefits for pensioners and deferred members and their dependants, allowing where appropriate for future increases, and
- (b) the accrued benefits for members in **service** on the valuation date.
Allowance may be made for earnings and **service** to be projected to the end of the control period and for revaluation thereafter, in which case allowance may also be made for replacing members assumed to leave during that period.

See GN26 published by the Institute of Actuaries and Faculty of Actuaries (and adopted by the Board for Actuarial Standards (BAS) in 2007) for the exact definition.

ACCRUED RIGHTS

The benefits to which a **member** is entitled, as of right, under an **occupational pension scheme**. These include **accrued benefits**.

The term is given various specific definitions in PSA93 for the purposes of preservation, contracting out and the Disclosure Regulations. It is also given a specific meaning in PA95 e.g. in relation to scheme amendments.

ACCUMULATED CONTRIBUTIONS

The total of contributions paid by a **member** of a **pension scheme** during a given period, enhanced, where appropriate, by interest. In a **defined contribution scheme** the term may also include the employer's contributions.

ACTIVE INVESTMENT MANAGEMENT

A style of investment management where the fund manager aims to outperform a **benchmark** by superior asset allocation, market timing or stock selection (or a combination of these). Compare with **passive investment management**.

ACTIVE MEMBER

A **member** of an **occupational pension scheme** who is accruing benefits and/or paying contributions under that scheme in respect of current service.

ACTIVE RISK

A measure of **volatility** of fund performance compared with that of the **benchmark** return. In technical terms, it is defined as the forecast standard deviation of annual returns versus the **benchmark**. Active risk is usually quoted **ex-ante**, the **ex-post** measure of **volatility** of actual returns more usually being referred to as realised tracking error.

ACTUARIAL ASSUMPTIONS

The set of assumptions as to **rate of return**, inflation, increase in earnings, and mortality etc, used by the **actuary** in an **actuarial valuation** or other actuarial calculations.

See also actuarial valuation assumptions.

ACTUARIAL BASIS

Commonly used to mean the **funding method** and/or **actuarial assumptions**.

ACTUARIAL CERTIFICATE

A certificate given by an **actuary** arising out of actuarial work.

Actuarial certificates include:

- (a) the **reference scheme test** certificate
- (b) the **section 179 valuation** certificate
- (c) the **section 143 valuation** certificate
- (d) the GN16 **bulk transfer** certificate
- (e) the **deficit reduction contributions certificate**.

ACTUARIAL DEFICIENCY

The excess of the **actuarial liability** over the **actuarial value of assets**, on the basis of the **funding method** and **actuarial assumptions** used.

If an actuarial report refers to an actuarial surplus or deficiency, it must be studied to ascertain precisely how the assets and liabilities have been assessed.

ACTUARIAL EQUIVALENCE

A test of actuarial value which compares benefits immediately before and after a modification of benefits. The total value of a member's **subsisting rights** immediately after the modification must be no less than the value of those rights immediately before the modification, for the actuarial equivalence requirements to be met. This term is used in connection with **Section 67** of PA95 (as amended by PA2004).

ACTUARIAL GAINS AND LOSSES

Used in **FRS 17** and **IAS 19** to mean changes in actuarial deficits or surpluses that arise because:

- a) events have not coincided with the **actuarial assumptions** made for the last valuation (experience gains and losses) or
- b) the **actuarial assumptions** have changed.

ACTUARIAL INCREASE

An enhancement of benefits to compensate for the deferment of pension beyond the **normal pension date**.

ACTUARIAL LIABILITY

The value placed on the liability of a **pension fund** for outgoings (future benefit payments and expenses) due after the date to which the calculations relate.

GN26 published by the Institute of Actuaries and Faculty of Actuaries (and adopted by the Board for Actuarial Standards (BAS) in 2007) gives the exact definition.

ACTUARIAL REDUCTION

A reduction made to a **member's** pension amount in order to offset any additional cost arising from payment in advance of the **normal pension date**.

ACTUARIAL REPORT

A report on an **actuarial valuation**, or actuarial advice on the financial effects of changes in an **occupational pension scheme**. Under PA2004, actuarial report refers to **annual reports** (updates) for years between full **actuarial valuations**.

A report on an actuarial valuation should conform to actuarial guidance issued by the Institute of Actuaries and Faculty of Actuaries (and adopted by the Board for Actuarial Standards (BAS) in 2007).

*See also **annual actuarial report***

ACTUARIAL STATEMENT

The statement signed by the **scheme actuary** to a **defined benefit scheme** that is required by the **Disclosure Regulations** to be included in the **annual report** of the scheme. It must state the amounts necessary to be paid into the scheme in order to protect the security of prospective rights. The statement must also state the actuarial method and assumptions adopted. This is not needed for actuarial valuations from 21 September 2005.

ACTUARIAL SURPLUS

The excess of the **actuarial value of assets** over the **actuarial liability** on the basis of the **funding method** and **actuarial assumptions** used.

*See note under **actuarial deficiency**.*

*See **GN26** published by the Institute of Actuaries and Faculty of Actuaries (and adopted by the Board for Actuarial Standards (BAS) in 2007) for related definitions.*

ACTUARIAL VALUATION

Commonly refers to an investigation by an **actuary** into the ability of a **defined benefit scheme** to meet its **liabilities**. The purpose is usually to assess the funding level and contribution rate, based on the agreed valuation method and assumptions.

Under PA2004, **actuarial valuation** refers to a full (generally triennial) valuation.

*See also **annual actuarial report***

ACTUARIAL VALUATION ASSUMPTIONS

Assumptions used by a **scheme actuary** when carrying out an **actuarial valuation**. They can be divided into financial and demographic assumptions.

1. Financial assumptions are generally about future economic factors. They include assumptions for investment return, inflation, general salary and pension increases, and discount rates.
2. Demographic assumptions are about what happens to scheme members, for example the likelihood of leaving the scheme, retiring or dying.

ACTUARIAL VALUE OF ASSETS

The value, following actuarial practice, placed upon the **assets** for the purpose of an **actuarial valuation**. It could be an assessed value, the **market value** or some other value.

ACTUARY

An adviser on financial questions involving probabilities relating to mortality and other contingencies.

For statutory purposes in the UK, the term automatically includes Fellows of the Institute of Actuaries and Faculty of Actuaries.

Persons with other actuarial qualifications may be approved by the Secretary of State for a specific purpose.

See also scheme actuary.

ADDED YEARS

The provision of extra benefits in a **defined benefit scheme** by adding a notional additional period of **pensionable service**. This may arise by the payment of **AVCs** from the receipt of a **transfer payment** or as an **augmentation**.

ADDITIONAL PENSION

The **State Second Pension** (or **State Earnings Related Pension Scheme** before 6 April 2002).

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.

See also FSAVCs.

ADMINISTRATOR

1. The person or persons notified to **HMRC** as being responsible for the management of a pension scheme.
2. A type of insolvency practitioner in relation to companies under the Insolvency Act 1986.

ADMITTED BODY

An organisation that chooses to be admitted to the **LGPS** in order to provide access to the scheme for some or all of its employees. Admitted bodies usually provide a public service.

AGE DISCRIMINATION

It is unlawful for employers and trustees or managers of a pension scheme to discriminate against members or prospective members on the basis of age. There are exemptions for certain age related rules and practices in pension schemes.

The relevant statutory provisions are The Employment Equality (Age) Regulations 2006 (S.I. 2006/1031) as amended by the Employment Equality (Age) (Amendment No.2) Regulations 2006 (S.I. 2006/2931). The Regulations came into force on 1 October 2006 for employment purposes and on 1 December 2006 for the pension provisions.

AGE RELATED REBATE

Annual payments into **Appropriate Personal Pension Schemes** (including **Stakeholder Pension Schemes**) and **Contracted Out Money Purchase** occupational pension schemes, made by the HMRC National Insurance Contributions Office. These payments are based on a percentage of earnings between the **Lower and Upper Earnings Limits**, and generally increase with the age of the member up to a maximum. They are intended to provide benefits broadly equivalent to the **State Second Pension** benefits given up.

See also contracted out rebate.

ALLOWABLE MAXIMUM

See earnings cap.

ALPHA

Represents the additional or excess return, relative to the market return (**beta**), which is derived from a portfolio selected by a skilled active **investment manager**.

Rarely expressed as the Greek symbol α

See also Active Investment Management.

ALTERNATIVE INVESTMENTS

Investments other than the mainstream asset classes of **equities** and **bonds**. Alternatives include **hedge funds**, **private equity**, and commodities. Property is also sometimes described as an alternative investment although many pension funds have held property investments for many years.

ALTERNATIVELY SECURED PENSION (ASP)

Payment of income withdrawals direct from a money purchase arrangement to a member of that arrangement. This is only available to those aged 75 and over.

AMORTISATION

1. The spreading of an **actuarial surplus** or **deficiency** over an appropriate period.
2. An accountancy term for the reduction in value of an **asset**, such as leasehold property, caused by the passage of time. If the cause is not solely related to time, the corresponding term is depreciation.

ANNUAL ACTUARIAL REPORT

A written annual actuarial report (funding update) covering developments since the last **actuarial valuation** or report.

The relevant statutory provisions are The Occupational Pension Schemes (Scheme Funding) Regulations 2005 (SI 2005/3377).

ANNUAL ALLOWANCE

The maximum amount of tax relievable pensions that can be built up in one tax year. This is expressed as a capital value and the amount is £225,000 for 2007/08 tax year (rising to £255,000 by 2010/11). Any excess is subject to the **annual allowance charge**.

The relevant statutory provision is s228 FA2004.

ANNUAL ALLOWANCE CHARGE

The tax charge that is levied on an individual who exceeds the **annual allowance**.

The relevant statutory provision is s227 and paragraphs 8 - 12 of schedule 34 FA2004.

ANNUAL PREMIUM METHOD

See level annual premium method.

ANNUAL REPORT

A means by which the **trustees** of an **occupational pension scheme** communicate financial and other information about the scheme to **members**, **employers** and other interested parties.

The term is used in particular to describe the specific information that is required to be made available by trustees in relation to each **scheme year** under the **Disclosure Regulations**. Subject to certain exceptions, this must include a copy of the **audited accounts** and other information specified including an investment report. Details of the required content of the annual report is on the website of the **Pensions Regulator**.

Trustees may publish a simplified summary report.

ANNUAL SCHEME RETURN

See Scheme Return.

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.

*An annuity may take one of a number of different forms including **compulsory purchase annuity**, **deferred annuity**, **purchased life annuity** and **reversionary annuity**.*

ANNUITY CERTAIN

An **annuity** payable for a fixed period irrespective of whether the annuitant is alive.

ANTI FRANKING REQUIREMENTS

Anti franking legislation requires that statutory indexation of an individual's **Guaranteed Minimum Pension** is paid in addition to any amount by which the scheme benefits exceed the GMP, and is not deemed to be covered or "franked" by other scheme benefits.

The requirements are covered in Chapter III of Part IV PSA93 and if brought into force Part II of Schedule 5 of the Child Support, Pensions and Social Security Act 2000.

APB BULLETINS

Are persuasive rather than prescriptive. However, they are indicative of good practice, even though they may be developed without the full process of consultation and exposure used for **APB** Standards.

See also *Auditing Practices Board (APB)*.

APPROPRIATE ADDITIONS

Amounts to be added when calculating the minimum benefit for the purpose of the **anti franking requirements**, in respect of any further benefit accruing after **contracted out** employment ceases, or any enhancement of benefits in excess of the GMP due to postponed payment.

APPROPRIATE PERSONAL PENSION SCHEME (APP)

A **personal pension scheme** that has received an **appropriate scheme certificate** allowing individuals to join as a means of **contracting out** of **State Second Pension**.

APPROPRIATE PERSONAL PENSION STAKEHOLDER PENSION SCHEME (APPSHP)

A **personal pension scheme** which operates on the same basis as an **APP** scheme but with **stakeholder pension scheme** status.

APPROPRIATE SCHEME

A scheme such as a **personal pension scheme**, **stakeholder pension scheme** or **FSAVC** scheme which has an **appropriate scheme certificate** granted by HMRC National Insurance Contributions Office, enabling individuals to use it for **contracting out**.

APPROPRIATE SCHEME CERTIFICATE

The certificate issued by HMRC National Insurance Contributions Office to a **personal pension scheme**, **stakeholder pension scheme** or to an **FSAVC** scheme confirming that the scheme satisfies the conditions required for **contracting out**.

ARTICLE 141

Article 141 (originally Article 119) of the Treaty of Rome, providing that men and women are entitled to equal pay for equal work.

See also *Barber judgment*.

ASSESSMENT DATE

The date on which the **assessment period** for entry to the **Pension Protection Fund** starts.

ASSESSMENT PERIOD

This is the period of time when a scheme is being assessed to determine if the **Pension Protection Fund** can assume responsibility for it.

ASSET ALLOCATION STRATEGY

The splitting of the **assets** of a **pension scheme** between the various **asset classes** such as **equities**, **bonds**, **alternative investments** and cash. This will primarily reflect the long term needs of the fund, the “strategic view”, but may be adjusted to favour particular asset classes or markets which look attractive in the short term, the “tactical view”.

ASSET AND LIABILITY MATCHING

A process of selecting **assets** which are likely to generate proceeds broadly equal to the cashflow needed to meet the **liabilities** as they occur under different economic scenarios.

An example of this would be the matching of a level pension with fixed interest securities.

ASSET AND LIABILITY MODELLING

A technique used to test the effect of different economic scenarios on the **assets** and **liabilities** of an **occupational pension scheme**, the inter relationship between them, the **funding ratio** and **contribution rates**.

ASSET CLASS

A collective term for investments of a similar type. The main asset classes are **equities**, **bonds**, cash, property, and **pooled investment vehicles**.

ASSETS

The items such as investments, cash and debtors, to which the **trustees** of a **pension scheme** have title.

ASSOCIATED EMPLOYERS

Where one company directly or indirectly controls the other or where each is controlled by the same party.

S590A ICTA88 provides a precise definition.

ASSOCIATED EMPLOYMENTS

Employment by **associated employers** where the employers have made arrangements with the same **occupational pension scheme**.

ASSURANCE ENGAGEMENT

An audit or similar review.

ATTAINED AGE METHOD

A **prospective benefits funding method** in which the **actuarial liability** makes allowance for projected earnings. The **standard contribution rate** is that necessary to cover the cost of all benefits which will accrue to existing **members** after the **valuation date** by reference to total earnings throughout their future working lifetimes projected to the dates on which benefits become payable.

See GN26 published by the Institute of Actuaries and the Faculty of Actuaries (and adopted by the Board for Actuarial Standards (BAS) in 2007) for the exact definition.

ATTRIBUTION ANALYSIS

Analysing the return achieved by a fund manager into its constituent parts (for example asset allocation and stock selection) to show where value is being added.

AUDITED ACCOUNTS

The **financial statements** of an **occupational pension scheme**, which include a report given by an auditor on the accounting information presented therein.

*See also **auditor's report** and **auditor's statement about contributions**.*

AUDITED ACCOUNTS REGULATIONS

The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 (SI 1996/1975) made under s41 PA95 which deal with the content of **financial statements** and the **auditor's report** of an **occupational pension scheme**.

AUDITING PRACTICES BOARD (APB)

The Auditing Practices Board is responsible for developing and issuing standards for auditors in the United Kingdom and Republic of Ireland.

AUDITOR

An individual or firm appointed to report on the financial statements of an entity. The results of their examination are incorporated within an **auditor's report**.

*See also **scheme auditor**.*

AUDITORS' REPORT

A report given by an **auditor** on a set of financial statements.

*Under the **Audited Accounts Regulations**, the **scheme auditor** has to provide a report on whether the scheme accounts give a **true and fair view** and contain the information required by those Regulations.*

AUDITORS' STATEMENT ABOUT CONTRIBUTIONS

A statement, provided by the **scheme auditor** and required by the **Audited Accounts Regulations**, on whether the contributions to the scheme reported in the **summary of contributions**, have been paid, in all material respects, at least in accordance with the **schedule of contributions** certified by the **scheme actuary**, or with the **payment schedule**.

PN 15, as revised in November 2004, recommended that the statement be made separately from the **Auditor's Report** on the Financial Statements of the scheme. This was re emphasised in PN15 as revised in March 2007.

See also Auditors' Statement on Contributions.

AUGMENTATION

The provision of an additional benefit or benefits in respect of a particular **member** or group of members of an **occupational pension scheme**, where the cost is borne by the scheme and/or the **employer**.

AUTHORISED EMPLOYER PAYMENTS

These are payments that a **registered pension scheme** is authorised to make to a **sponsoring employer** or former employers. These include payments by **public sector pension schemes**, authorised employer loans and compensation.

The relevant statutory provision is s175-180 FA2004.

AUTHORISED MEMBER PAYMENTS

These are payments that a **registered pension scheme** is authorised to make to or in respect of a **member**. These include pension payments permitted by the **scheme rules** (including death benefits), permitted lump sums and recognised transfers. Other payments may be made but they will be unauthorised.

The relevant statutory provision is s164-171 FA2004.

AVERAGE EARNINGS SCHEME

See **career average scheme**.

BALANCE SHEET

A financial statement of the **assets** and **liabilities** of an entity at a particular date designed to give a **true** and **fair view** of the state of affairs.

In pension scheme accounts, a net assets statement is required rather than a balance sheet.

BALANCED MANAGEMENT

A style of investment management where the **investment manager** is free to invest in all **asset classes**. This is in contrast to **specialist management**.

Sometimes trustees will place some constraints on the manager, such as not to invest in property or venture capital.

BAND EARNINGS

See **upper band earnings**.

BARBER JUDGMENT

The judgment of the **European Court of Justice** (ECJ) in the case of Barber v. Guardian Royal Exchange on 17 May 1990, which confirmed that pensions count as pay for the purposes of **Article 141**.

BASIC COMPONENT

See **basic pension**.

BASIC PENSION

The flat rate (not earnings related) state pension paid to all who have met the minimum NI contribution requirements. Subject to certain conditions, a wife may claim on the NI record of her husband, a surviving spouse or civil partner may claim on the record of his/her deceased spouse or civil partner, and a person who is divorced or whose civil partnership is dissolved may use the former spouse's/civil partner's NI record up to the termination of the marriage/civil partnership.

BASIS POINT

One hundredth of 1% (i.e. 0.01%).

BECKMANN JUDGMENT

The judgment of the **European Court of Justice** (ECJ) in the case of *Beckmann v Dynamco Whicheloe Macfarlane* on 4 June 2002 changed the obligation to provide pension benefits that transfer to a transferee employer on a TUPE transfer.

The judgment held that any obligation to provide benefits that are neither old age nor incapacity benefits transfers from the transferring employer to the new employer. As a result, early retirement benefits on redundancy or otherwise that a transferring employee may have had in the transferring employer's pension scheme must be replicated by his new employer.

BENCHMARK

A target or measure against which performance is to be judged, which is commonly used to assess the investment performance of a fund or portfolio.

A customised benchmark may be specifically constructed for a fund or whole portfolio if that is considered more appropriate than using an industry standard.

See also investment performance measurement.

BENEFICIAL OWNER

The person or persons who have ultimate rights to the value of an investment or property, as distinct from the registered owner who may be a nominee.

BENEFICIARY

A person entitled to benefit under a **pension scheme** or who will become entitled on the happening of a specified event.

BENEFIT CRYSTALLISATION EVENT (BCE)

This is a defined event or occurrence that triggers a test of a member's benefits against the available **lifetime allowance**. There are nine such events.

The relevant statutory provisions are s216 and Schedule 32 FA2004.

BENEFITS IN KIND

Benefits other than cash provided as remuneration for an employment. In a pensions context only those which are taxable under schedule E may be included for pension purposes.

Also known as P11D benefits.

BENEFIT STATEMENT

A statement or estimate of benefits payable in respect of an individual's membership of a **pension scheme** on the attainment of a specific age or the occurrence of specific events.

BETA

Represents the market return, which is the total return from investing in a market index or an index-tracking (or passive) fund.

Rarely expressed as the Greek symbol β .

See also passive investment management.

BID-OFFER SPREAD

The difference between the price at which financial securities and units in a **pooled investment vehicle** can be sold (bid price) and bought (offer price). Contrasts with a single price where the buying and selling price is the same.

BOOK COST

The total purchase cost at which investments were acquired.

BOOK RESERVE SCHEME

An unfunded **occupational pension scheme** which is accounted for by a provision in the employer's accounts.

BOOK VALUE

An ambiguous term which may be used to mean **book cost**, historical cost, carrying value or net book value.

BOND

A certificate of debt issued by a company, government or other institution. A bond holder is a creditor of the issuer and receives interest on the basis stated at the time of the issue.

See also coupon.

BRIDGING PENSION

An additional pension paid by a **pension scheme** between retirement and **state pensionable age**, which is usually replaced by the state pension payable from that age.

BROADLY COMPARABLE

A **pension scheme** where the value of the future benefits provided is such that no identifiable employee (or identifiable group of employees) is significantly detrimentally affected, when compared to the benefits that would have been provided in their previous scheme.

BULK TRANSFER

The transfer of a group of **members** from one **occupational pension scheme** to another, sometimes with an enhanced **transfer payment** in comparison with an individual's **cash equivalent**.

HMRC must be informed about any such transfer payments.

BUY BACK

1. Restoration of an individual's State **Additional Pension** when they have been **contracted out** of **State Second Pension**. Since 5 April 1997, only available in limited circumstances.
2. The purchase by a company of its own shares.

BUY OUT

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

Sometimes also used to refer to the purchase of an insurance policy in the name of the trustees.

See also section 32 policy.

BY ANALOGY SCHEMES

Certain public sector schemes which state that they provide benefits based on an existing major public sector scheme (usually the **PCSPS**) so that if and when the public sector scheme changes, they change by analogy, without a scheme-specific amendment.

CABINET OFFICE STATEMENT OF PRACTICE (COSOP)

These statements prescribe practice to be followed by government departments. The Cabinet Office issued the COSOP "Staff Transfers in the Public Sector" in January 2000.

CALL OPTION

An option that gives the right (but not the obligation) to buy a specific quantity of the underlying security at a fixed price, on or before a specified date.

See also option.

CANCELLATION NOTICE

A document issued to an individual by the pension provider outlining the individual's legal right to cancel the contract within a specified period of receiving the notice.

CAREER AVERAGE REVALUED EARNINGS SCHEME (CARE)

A **career average scheme** where benefits are revalued by reference to an appropriate index during and after **pensionable service**.

CAREER AVERAGE SCHEME

A scheme where the benefit for each year of membership is related to the **pensionable earnings** for that year.

CASH BALANCE ARRANGEMENT

A **defined benefit** arrangement in which a guaranteed cash sum is built up for each employee on the basis of a known formula and which is directly related to that employee's **pensionable earnings** in each year of membership. The resulting "cash balance" can be used either to purchase an **annuity** or to make other arrangements for retirement.

Such plans are common in the USA but are now being introduced more widely in the UK.

CASH BASIS

A method of accounting under which the transactions are accounted for only at the time money is received or paid. This is in contrast to the **accruals concept**.

CASH EQUIVALENT

The value of benefits accrued by a **member** of a **pension scheme** under s94 PSA93. **Cash equivalents** are used in **cash equivalent transfer values**, and for other purposes, for example when a **pension sharing order** is made.

See reduced cash equivalent.

CASH EQUIVALENT TRANSFER VALUE (CETV)

The value which a **member** of a **pension scheme** may, under s94 PSA93, require to be paid as a **transfer payment** to another approved pension arrangement.

CASH OPTION

See commutation.

CAT STANDARDS

Minimum standards laid down relating to Cost, Access and Terms. **Stakeholder pension schemes** have to comply with these standards.

CERTIFICATE OF EXISTENCE

A document confirming that a person entitled to a pension is still alive.

CERTIFICATE OF TECHNICAL PROVISIONS

A certificate signed by the **scheme actuary** to a **defined benefit scheme** certifying that in the scheme actuary's opinion the calculation of the scheme's **technical provisions** at the valuation date is made in accordance with regulations. The calculation uses a method and assumptions determined by the **trustees** of the scheme in accordance with the regulations. These are set out in the **Statement of Funding Principles**.

The relevant statutory provisions are section 222 of PA2004 and The occupational pension schemes (Scheme Funding) Regulations 2005 (SI 2005/3377).

CERTIFIED AMOUNT

That part of a **contributions equivalent premium** which may be recovered out of any refund of scheme contributions to the member.

CHINESE WALLS

Separation of activities within financial institutions to prevent confidential and/or price sensitive information from passing from one area to another. For example, it is normal practice for a financial services institution to separate corporate finance, stockbroking and fund management using Chinese Walls.

CHURNING

Excessive dealing in securities leading to abnormally high turnover of the portfolio. This is considered undesirable for **pension funds** in that excessive commissions may be charged and the practice could lead to a loss of tax exempt status.

CLASS ACTION

A class action arises when a group of investors initiates a legal action against a company or its directors in respect of alleged negligence or illegal behaviour. The majority of class actions are initiated in the US. The case usually involves a claim for compensation in respect of share price losses in a specified period.

CLEARANCE

The procedure whereby companies and individuals can seek clearance from the **Pensions Regulator** that proposed transactions will not contravene the **moral hazard** provisions set out in PA2004.

CLOSED SCHEME

A **pension scheme** that does not admit new **members**.

Contributions may or may not continue and benefits may or may not be provided for future service.

CODES OF PRACTICE

The **Pensions Regulator** issues various codes of practice providing practical guidance on compliance with the requirements of PA2004. A breach of a code of practice will not result in legal proceedings, but such a breach will be admissible in evidence in any legal proceedings.

COMBINED CODE

A code of **corporate governance** principles for UK companies. So called because it combines the recommendations of several key reports on corporate governance issues including those of the committees chaired by Cadbury, Greenbury, Hampel and Higgs. Amongst other things, the Code encourages institutional shareholders to take responsibility for voting and, where appropriate, to enter into dialogue with the companies in which they invest.

The Code is overseen by the **Financial Reporting Council (FRC)**.

COMBINED PENSION FORECASTS

A statement issued by the current pension arrangement to the **member** showing the combined benefits at retirement that member may receive from the pension arrangement and the state.

COMMISSION RECAPTURE

An arrangement whereby a broker repays a proportion of commissions received. The repayment is usually made to the pension fund via a third party, for example a **custodian** or specialist recapture agent.

COMMON INVESTMENT FUND (CIF)

An arrangement whereby **assets** of two or more **occupational pension schemes**, operated by a single **employer** or a group of **associated employers**, are added together for investment.

*This is not a **pooled investment vehicle** although pooled forms of investment can be used.*

COMMUTATION

The process where a member gives up all or part of his pension in exchange for an immediate lump sum payment.

COMMUTATION FACTORS

Factors used to determine the amount of pension which needs to be given up in order to provide a lump sum benefit.

COMPLIANCE AUDIT

1. An audit at the instigation of the IR SPSS to ensure compliance with **HMRC** requirements.
2. An audit carried out to ensure compliance with the rules and regulations imposed by the Financial Services and Markets Act 2000.

COMPLIANCE STATEMENT

A statement which the **Pension Scheme SORP** suggests could be included in the **annual report** of an **occupational pension scheme**. It provides information which regulations require to be disclosed to **members** in that report. It may also be used to provide information which is disclosed voluntarily but which is not of such significance that it should be included in the **trustee report**.

COMPULSORY PURCHASE ANNUITY (CPA)

An **annuity** which must be purchased on retirement for a member of an insured **pension scheme**.

*See also **open market option**.*

CONCENTRATION OF INVESTMENT

Placing a significant proportion of the **assets** of a **pension scheme** in any single investment.

The amounts requiring compulsory disclosure and reporting in the pension scheme's annual report and accounts are laid down by PA95.

CONCURRENCY

The principle of being able, without contravening **HMRC** rules, to pay into more than one **pension scheme** at the same time.

Post **A-Day**, membership of more than one pension scheme is permitted, subject to the **annual allowance** and the **lifetime allowance**.

See also concurrent employments.

CONCURRENT EMPLOYMENTS

When an individual is employed by more than one employer at the same time.

CONNECTED PERSONS

Connected persons are defined in Section 839 of ICTA 1988 and include spouses or civil partners, relatives, spouses or civil partners of relatives, **trustees** of a **member's** or a connected person's settlement, and companies controlled by the member either alone or with another connected person.

Mainly used for SSAS and SIPP.

CONTINGENT ANNUITY

An **annuity** payable to a person, if alive, on the death of another.

CONTINGENT ASSET

1. A possible **asset** that arises from past events and whose existence will be confirmed only by one or more uncertain future events, not wholly within the scheme's control.
2. An asset that will provide value to the **occupational pension scheme** in the event that certain specified events occur. A contingent asset is an asset that will produce cash for a **pension scheme** contingent on certain events, in particular when an insolvency event occurs to the **sponsoring employer**. These **assets** can be taken into account in calculating the risk based element of the **Pension Protection Levy**. Contingent assets are not recognised in the **financial statements** of a pension scheme.

CONTINUATION OPTION

A facility offered by an insurance company which insures a scheme's death benefits, whereby a member leaving the scheme can effect a life assurance policy without evidence of health.

CONTINUOUS SERVICE

Treatment by an **occupational pension scheme** prior to **A-Day** of the pensionable employment of **member** as continuous with a previous period of pensionable employment (within the same scheme or another scheme). This term is still in common usage.

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 **State Second Pension**. Employees and the sponsoring employers of contracted out occupational schemes pay reduced rate NI contributions. Depending on the type of scheme, an end of year **age related rebate** payment from **HMRC** is paid directly to the scheme. **Members** of **APP/APPSHP** schemes pay full rate NI contributions but receive end of year payments from **HMRC** paid directly to the scheme.

The conditions for contracting out are set out in PSA93.

CONTRACTED OUT/CONTRACTED IN

A **pension scheme** is contracted out where it provides benefits in place of **State Second Pension** and holds a **contracting out certificate** or **appropriate scheme certificate** granted by the **HMRC** National Insurance Contributions Office. **Members** or employees are contracted out if they are in employment which is contracted out by reference to an **occupational pension scheme**, or have elected to contract out via an **appropriate personal pension scheme** or **stakeholder pension scheme**.

A pension scheme is commonly called contracted in where it is not contracted out: that is, it provides benefits in addition to State Second Pension. The term 'contracted in' is not used in PSA93 or PA95.

CONTRACTED OUT CONTRIBUTION/EARNINGS INFORMATION SERVICE (COCIS)

Part of **HMRC**. **COCIS** provides employers/schemes or their representatives with details of contributions/earnings for specified tax years.

CONTRACTED OUT DEDUCTION

The amount deducted from an individual's **SERPS** benefits for the period of being **contracted out**. Only applies to contracting out between 1978/79 and 1996/97. Analogous to the **Guaranteed Minimum Pension** provided by **COSR** pension schemes.

CONTRACTED OUT MIXED BENEFIT SCHEME (COMB)

An **occupational pension scheme** which was approved under Chapter I which has both a **COMP** and a **COSR** section (permitted by s149 PA95).

CONTRACTED OUT MONEY PURCHASE SCHEME (COMP)

An **occupational pension scheme**, including a scheme providing defined benefits, which is **contracted out** on a **money purchase basis** i.e. where the employer pays at least minimum payments which provide the member with a **protected rights** pension based on the value of the accumulated fund at retirement. The minimum payment is an amount equivalent to the combined employee/employer reduction on NI contributions.

Sometimes used more narrowly to refer to a **defined contribution scheme** which is contracted out on a money purchase basis.

CONTRACTED OUT MONEY PURCHASE STAKEHOLDER PENSION SCHEME (COMPSP)

A trust based contracted out **occupational pension scheme** which operates on the same basis as a **COMP** scheme but with **stakeholder pension scheme** status.

CONTRACTED OUT REBATE

The amount by which the **employer's** and employee's NI contributions are reduced or rebated in respect of employees who are **members** of a **contracted out** pension scheme. The contracted out rebate consists of a flat rate rebate and (for **appropriate schemes**, **COMP**, **COMPSP** and **COMBS**) an **age related rebate**.

CONTRACTED OUT SALARY RELATED SCHEME (COSR)

An **occupational pension scheme** which is **contracted out** on a salary related basis i.e. by providing benefits (**Section 9(2B) rights**) which are broadly equivalent to or better than those specified under the **reference scheme test**.

*Prior to 6 April 1997, COSRs contracted out by providing a **Guaranteed Minimum Pension**.*

CONTRACTING OUT CERTIFICATE

The certificate issued by **HMRC**, in respect of an **occupational pension scheme** which satisfies the conditions for contracting out, confirming that the employees in the employments named in the certificate are to be treated as being in contracted out employment.

CONTRIBUTION HOLIDAY

A period during which **ordinary annual contributions** and/or **member's normal contributions** to a **defined benefit scheme** cease temporarily, usually because a scheme is in **surplus**.

CONTRIBUTION NOTICE

A notice that may be issued by the **Pensions Regulator** to a person (company or individual), stating that the person is under a liability to pay the sum given in that notice. That person must have been a party to an act or a deliberate failure to act, occurring on or after 27 April 2004, the purpose of which the Pensions Regulator considers to be:

- to prevent recovery of a **debt on the employer**, or
- otherwise than in good faith, to prevent such a debt becoming due or to reduce the amount of such a debt which was or would otherwise become due,

and that person must have been an **employer** in relation to the scheme in question or “connected” or “associated” with the employer.

A contribution notice can also be issued in the event of non-compliance with a **financial support direction** or a **restoration order** in respect of transactions at an undervalue.

The relevant statutory provision is s.38 PA2004.

*See also **debt on the employer** and **moral hazard**.*

CONTRIBUTION RATE

The amount paid into a **pension scheme** to secure future benefits.

In the case of a **defined benefit scheme** the total amount payable is calculated by the **scheme actuary** and agreed by the **trustees** and **employer** and which, subject to the scheme rules, may be expressed as a fixed amount payable by **active members** and an amount payable by the employer that may be varied after each **actuarial valuation**. The agreed contribution rate must be certified by the scheme actuary as being sufficient to secure the benefits of the scheme and that it meets the current statutory requirements (s227 PA2004 and *The occupational pension schemes (Scheme Funding) Regulations 2005 (SI 2005/3377)*).

For **defined contribution schemes** the amounts payable are normally agreed between employer and employee and may sometimes be specified in the contract of employment.

*See also **schedule of contributions**.*

CONTRIBUTION SCHEDULE

See **schedule of contributions**.

CONTRIBUTIONS EQUIVALENT PREMIUM (CEP)

A **state scheme premium** which may be paid when a member leaves an occupational pension scheme with less than two years’ qualifying **service**. In return, the member is reinstated in **State Second Pension** for the period covered by the CEP.

CONTRIBUTORY SCHEME

A scheme which requires contributions from **active members**.

CONTROL PERIOD

The period over which a constant **standard contribution rate** is calculated, assuming that the **funding ratio** at the beginning and end of the period is 100 per cent. The control period is normally one year, but may be another period such as three years, and should be specified.

COOLING OFF NOTICE

See **cancellation notice**.

CORE/SATELLITE APPROACH

The partitioning of a **pension scheme’s assets** between a core holding of lower risk **assets** and one or more actively managed portfolios.

*The core portfolio generally represents the bulk of a fund’s assets and is normally invested in a controlled manner to provide stable returns (possibly by **indexation**). The remainder of the fund’s assets (often called the satellite portfolio) can then be managed in a more aggressive way, in search of higher returns.*

CORPORATE BONDS

Technically **bonds** issued by companies, but in practice all bonds other than those issued by governments in their own currency.

CORPORATE GOVERNANCE

The system by which companies are directed and controlled for the benefit of shareholders.

See also combined code.

CORPORATE TRUSTEE

A **trustee** that is a company rather than an individual person.

See also trust corporation.

CORRIDORING

The term used, in relation to IAS 19, to describe the facility whereby entities need not account for changes in **actuarial assumptions**, such as mortality, unless the effect of these changes exceeds 10% of the higher of **liabilities** or **assets**.

COUPON

The regular interest payment due on a **bond**, expressed as a percentage of the nominal value of the stock.

CREST

The computerised system for settling sales and purchases of shares. It enables shares to be held in electronic form as a computer record, rather than a paper certificate.

CURRENCY OVERLAY

An **investment policy/strategy** in which the currency exposure of a portfolio is altered using **derivatives** (usually **forward contracts**).

CURRENCY RISK

Investing in any securities not denominated in the investor's own base currency introduces currency risk due to the volatility of foreign exchange rates. This risk is often controlled using a **currency overlay** strategy.

CURRENT ASSETS

Assets which are essentially short term, such as debtors and cash.

CURRENT LIABILITIES

Creditors to be paid in the near future, such as amounts due to the suppliers of goods and services and sums to be paid in respect of benefits due to **members** at the accounting date.

CURRENT SERVICE COST

Used in **FRS 17** and **IAS 19** to mean the increase in the **present value** of the **scheme liabilities** expected to arise from employee service in the current period.

CURRENT UNIT METHOD

An **accrued benefits funding method** in which the **actuarial liability** is based on earnings at the **valuation date**. The **standard contribution rate** is that necessary to cover the cost of benefits which will accrue in the **control period** following the valuation date by reference to earnings projected to the end of that period and non discretionary **revaluation** thereafter.

See GN26 published by the Institute of Actuaries and the Faculty of Actuaries (and adopted by the Board for Actuarial Standards (BAS) in 2007) for the exact definition.

CURTAILMENT

Used in **FRS 17** to mean an event that reduces the expected years of future service of present employees, or reduces for a number of employees the accrual of defined benefits for some or all of their future service.

CUSTODY

The safe keeping of securities and other investments by a **custodian**.

CUSTODIAN TRUSTEE

A **trustee** responsible for holding the assets of a **trust**, other trustees being responsible for the management of the trust including the investment decisions.

See also trust corporation.

CUSTODIAN

A financial institution independent of the investment management function. The custodian keeps a record of a client's investments, settles its market transactions and may also collect income, process tax reclaims and provide other services agreed with the client.

See also custody and sub custodian.

DEBT ON THE EMPLOYER

The statutory debt due from the **employer** to a **defined benefit scheme** (subject to exceptions) where the **assets** are insufficient to meet the **actuarial liabilities** calculated on a prescribed basis. The debt can be triggered on **winding up** the scheme, on liquidation of the employer and on an employer leaving a scheme on it ceasing to employ any scheme members. In many circumstances the debt is calculated by reference to full **annuity buy out** costs.

The relevant statutory provisions are s75 and s75A PA95 (as amended by PA2004) and The occupational pension schemes (Employer Debt) Regulations 2005 (SI 2005/678) as amended.

DECLARATION OF TRUST

A formal document or part of a document establishing a **trust**.

DEED

A legal document which in England and Wales makes it clear that it is intended to be a deed and which, in the case of an individual, is signed in the presence of an attesting witness or, in the case of a corporation, is executed in accordance with company law (s1, Law of Property (Miscellaneous Provisions) Act 1989).

In Scotland, deed has no technical legal meaning, although it is used in practice to describe some documents. These would normally then be executed in accordance with the Requirements of Writing (Scotland) Act 1995.

DEED OF ADHERENCE

A **deed** admitting a new **employer** to an **occupational pension scheme** and containing an undertaking by the new employer to comply with the provisions of the scheme. Also referred to as a **deed of participation**.

DEED OF APPOINTMENT

A **deed** by which a new **trustee** is appointed.

DEED OF COVENANT

Sometimes used for **deed of adherence**.

DEED OF PARTICIPATION

See **deed of adherence**.

DEED POLL

A **deed** made by one party for the benefit of (and enforceable by) specified persons who are not parties to the deed.

DEFERRED ANNUITY

An **annuity** which commences from a future date.

DEFERRED MEMBER

A **member** entitled to **preserved benefits**.

DEFERRED PENSIONER

See **deferred member**.

DEFERRED RETIREMENT

See **postponed retirement** and **late retirement**.

DEFICIT REDUCTION CONTRIBUTIONS CERTIFICATE

An **actuarial certificate** submitted to the **Pension Protection Fund (PPF)** by a **scheme actuary** relating to contributions in excess of those paid to meet the cost of accrual on the PPF basis, for the purpose of calculating the risk based element of the **Pension Protection Levy**.

DEFINED ACCRUED BENEFITS METHOD

An **accrued benefits funding method** in which the **actuarial liability** is based on the benefits that would arise if the scheme were to discontinue at the **valuation date**. The **standard contribution rate** is that necessary to cover both the cost of benefit payments in the ongoing scheme and the **accrued benefits** in the event of future **discontinuance**.

See GN26 published by the Institute of Actuaries and the Faculty of Actuaries (and adopted by the Board for Actuarial Standards (BAS) in 2007) for the exact definition.

DEFINED BENEFIT SCHEME

A scheme where benefits are linked through a formula to the members' earnings and/or length of **pensionable employment**.

DEFINED BENEFITS LUMP SUM DEATH BENEFIT

A lump sum paid from a **defined benefit scheme** on death before age 75, which is tested against the member's unused **lifetime allowance**.

The relevant statutory provision is s168 and Schedule 29 FA2004.

DEFINED CONTRIBUTION SCHEME

A scheme that provides **money purchase** benefits.

See money purchase scheme.

DEFINITIVE TRUST DEED

The detailed **trust deed** which governs an **occupational pension scheme**.

DEPENDANT

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

For HMRC purposes, a spouse or civil partner will qualify automatically as a dependant and a child may be regarded as a dependant until attaining the age of 23.

DERIVATIVES

A generic term for financial instruments used in the management of portfolios, which are derived from the performance of particular **assets**, including **futures contracts**, **forward contracts**, **swaps**, and **options**.

DESIGNATED ASSETS

Under the **Pension Scheme SORP**, those **assets** of an **occupational pension scheme** providing **defined contribution** benefits which have been specifically allocated for the provision of benefits to or in respect of named members.

See also undesignated assets.

DESIGNATED SCHEME

A **stakeholder pension scheme** that an **employer** has chosen to offer to his employees.

DETERMINATION

A decision by the **Pensions Ombudsman** that is final and binding on all parties, subject only to an appeal on a point of law to, in England and Wales, the High Court, in Scotland, the Court of Session, in Northern Ireland, the Court of Appeal.

DETERMINISTIC VALUATION

Uses a single set of central assumptions, usually with alternative variant assumptions. This approach is generally used for a **scheme funding valuation**.

See also stochastic valuation and scheme funding.

DETRIMENTAL MODIFICATION

A modification which, on taking effect, would or might adversely affect any **subsisting right** of a member or survivor of a **member** of the scheme. This term is used in connection with **Section 67** of PA95 (as amended by PA2004).

DIRECT DISCRIMINATION

Direct discrimination occurs when an **employer** or the **trustees** treat an individual less favourably on the basis of gender, age, sexual orientation, race or religion.

See also indirect discrimination and discrimination.

DIRECT INVESTMENT

The method of investment for a **self administered scheme** by which the securities are held directly by or on behalf of the trustees, as opposed to **pooled investment vehicles** or insurance contracts.

DISABILITY BENEFIT

A benefit paid to an employee who is unable to work for medical reasons.

DISCLOSURE

1. A requirement introduced by PSA93 (formerly SSPA75) and strengthened by PA95 for **pension schemes** to disclose information about the scheme and benefits to interested parties.
2. Rules introduced by regulatory bodies to disclose product and commission information to the purchasers of life assurance and insured pension products.

DISCLOSURE REGULATIONS

Regulations issued under PSA93 and PA95 requiring **disclosure** of information about **pension schemes** and benefits to interested parties.

The main regulations are the occupational pension schemes (Disclosure of Information) Regulations 1996 (SI 1996/1655) and the Personal pension schemes (Disclosure of Information) Regulations 1987 (SI 1987/1110).

DISCOUNTING

Used in financial decision making processes to mean using an interest rate to reduce a given amount of money at a date in the future to an equivalent value as at the present date. The process is the opposite of using compound interest.

See also present value.

DISCONTINUANCE

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

This may lead either to **winding up** or to the scheme becoming a **paid up scheme**.

DISREGARD

See **state pension offset**.

DISCRETIONARY INCREASE

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

DISCRETIONARY SCHEME

An **occupational pension scheme** in which the employees to be offered membership are selected by the **employer**.

Often the benefits, or the contributions from which they are to be provided, are also decided individually for each member.

DISCRETIONARY TRUST

A **trust** where the benefits are payable at someone's discretion (usually the **trustees**).

DISCRIMINATION

An intentional or unintentional act which adversely affects an individual because of gender, age, sexual orientation, race or religion.

DISPUTE RESOLUTION PROCEDURE

See **Internal Dispute Resolution Procedure**.

DIVERSIFICATION

The spreading of investment funds among different types of **assets**, markets and geographical areas in order to reduce **risk**. Diversification is more effective when there is little or no correlation between the change in the value of the various **assets** when they are exposed to market or economic events.

DIVIDEND

The part of a company's reserves which is distributed to the shareholders in the form of cash or shares. The directors of the company decide how much dividend is to be paid and when. Payment of a dividend is neither automatic nor guaranteed for ordinary shareholders.

To clarify who receives the dividend on a share that is sold around the time the dividend is due, share prices may be quoted as "cum dividend" or "ex-dividend". A share quoted "cum dividend" carries the right to receive a recently declared dividend (from the Latin prefix cum, meaning with). On the date when a share goes "ex-dividend", anyone buying from that date will not receive the dividend.

A share price will normally fall by the amount of the dividend on the day that it goes "ex-dividend".

DRAWDOWN FACILITY

See **income drawdown**.

DUAL CALCULATION

A **GMP** calculation for any period(s) between 6 April 1990 and 5 April 1997 which treats a male as a female, or vice versa. **NISPI** provide this service for pension schemes to assist in equalising benefits between men and women.

DYNAMISATION/DYNAMISM

1. The index linking of earnings for calculating scheme benefits.
2. Sometimes used to describe **escalation**, indexation or **revaluation**.

See also **indexation of pensions**.

EARLY LEAVER

A person who ceases to be an **active member** of a **pension scheme**, other than on death, without being granted an immediate retirement benefit.

EARLY RETIREMENT

The immediate payment of retirement benefits to a member before **normal pension date**.

The benefit may be reduced because of early payment.

*See also **ill health early retirement**.*

EARLY RETIREMENT PIVOT AGE

The earliest age at which an employee can draw an age related benefit without the consent of any person and without it being reduced for early payment. This age will be set out in the scheme rules or may be otherwise determined (for example by custom and practice). Any special provision for early retirement without reduction should be disregarded e.g. early payment on the grounds of ill health or redundancy.

*See **age discrimination**.*

EARMARKED MONEY PURCHASE SCHEME

An **occupational pension scheme** providing **money purchase** benefits under which all the benefits are secured by one or more policies of insurance or **annuity** contracts, such policies or contracts being specifically allocated to the provision of benefits for individual **members** and/or their **dependants**.

EARMARKED POLICY

A policy held by a **pension scheme**, where each **annuity** or sum assured is earmarked to provide benefits for or in respect of an individual **member** and/or their **dependants**.

EARMARKING

An order of the Court under PA95, when a **member** of an **occupational pension scheme** or **personal pension scheme** divorces, directing the **trustees** or **managers** to pay some or all of the member's benefits to the ex spouse at the time they become payable to the member.

*See **pension sharing order**.*

EARNINGS CAP

Limitation introduced by FA89 on the amount of remuneration on which the benefits and contributions of a member who was subject to the then **Inland Revenue** post 89 maximum benefit limits (i.e. a member without continued rights) might be based. The earnings cap is still retained by some **occupational pension schemes**.

Also commonly referred to as the permitted maximum or allowable maximum.

EARNINGS FACTOR

A notional amount of earnings used for the purpose of calculating state scheme benefits or (formerly) **GMPs**.

EARNINGS LIMITS

See **lower earnings limit** and **upper earnings limit**.

ELIGIBILITY

The conditions which must be met for a person to be a **member** of a **pension scheme** or to receive a particular benefit. These may, for example, relate to length of service, status and type of employment.

EMPLOYEE TRUSTEES

Trustees of an **occupational pension scheme** who are employees of a **participating employer**.

*Employee trustees are given various protections under the Employment Rights Act 1996 (formerly PA95). Employee trustees need not be **member nominated trustees**.*

EMPLOYEE'S EARNINGS THRESHOLD

From 6 April 2000, the point at which employees begin to pay NI contributions. Currently linked to the single person's tax allowance.

*Also known as **primary threshold**.*

EMPLOYER

The person or body with whom the **member** of a **pension scheme** has a contract of employment relevant to that scheme.

*See also **principal employer** and **participating employer**.*

EMPLOYER COVENANT

A term used to describe the **sponsoring employer's** financial position and prospects as well as its willingness to continue to fund the benefits of the **pension scheme**.

EMPLOYER FINANCED RETIREMENT BENEFITS SCHEME (EFRBS)

Post **A-Day** all unapproved schemes are treated as unregistered pension schemes and known as EFRBS.

EMPLOYER RELATED INVESTMENT (ERI)

Investment of the **assets** of the scheme in a **participating employer** or associate, for example, shares or other securities, land and property used by the **employer** and loans (s40 PA95). In this context any required payment not made by the **employer** into the scheme by the due date constitutes an employer related investment.

Employer related investments must be disclosed and reported in the pension scheme's **annual report** and accounts, as laid down by PA95.

*See also **restricted employer related investment**.*

EMPLOYER'S AUGMENTATION CONTRIBUTIONS

Contributions which are paid to provide new benefits or to augment the benefits for specified members.

*They should be accounted for in accordance with the agreement under which they are paid or, in its absence, on a **cash basis**.*

EMPLOYER'S EARNINGS THRESHOLD

From 6 April 1999, the point at which employers begin to pay NI contributions. Currently linked to the single person's tax allowance.

*Also known as **secondary threshold**.*

EMPLOYERS' DEFICIT FUNDING CONTRIBUTIONS

Contributions which are payable for a limited period, or as a single payment, to improve the funding of a **defined benefit scheme**. They often arise from a scheme **recovery plan**.

*They should be accounted for in accordance with the agreement under which they are paid or, in its absence, on a **cash basis**.*

EMPLOYER'S NORMAL CONTRIBUTIONS

*See **ordinary annual contributions**.*

ENDOWMENT POLICY

A policy which provides a lump sum at a fixed future date or on earlier death.

ENHANCED PROTECTION

One of two forms of transitional protection (the other is **primary protection**) for pre **A-Day** rights. This protection is available to any individual with benefits accrued at A-Day. It allows the value of pre A-Day benefits to be linked to indexation or movements in future earnings or investment growth. The benefits of a member with enhanced protection are not subject to the **lifetime allowance charge**, but this is subject to several important conditions.

The relevant statutory provision is s263 and Schedule 36 FA2004.

ENTRY AGE METHOD

A **prospective benefits funding method** in which the **standard contribution rate** is the rate payable over the expected future membership of a defined group of new entrants, which would provide for their total expected benefits.

*See **GN26** published by the Institute of Actuaries and the Faculty of Actuaries (and adopted by the Board for Actuarial Standards (BAS) in 2007) for the exact definition.*

EQUAL ACCESS

Identical entry conditions to **occupational pension schemes** for each sex.

This is required by PA95 strengthening earlier provisions in PSA93.

EQUAL TREATMENT

The principle requiring one sex to be treated for contributions and benefits purposes no less favourably than the other, as embodied in s62-s66 PA95.

EQUITY

The capital of a company belonging to the ordinary shareholders who have voting rights allowing them to influence the management of the company. The term *equities* is commonly used for ordinary shares.

EQUIVALENT PENSION BENEFIT (EPB)

The benefit which must be provided for an employee who was **contracted out** of the former **graduated pension scheme**.

ESCALATION

A system whereby pensions in payment and/or **preserved benefits** are automatically increased at regular intervals and at a defined percentage rate. The percentage may be restricted to the increase in a specified index. For example the **retail price index (RPI)**.

*See also **indexation of pensions**.*

EUROPEAN COURT OF JUSTICE (ECJ)

Also known as “the Court of Justice of the European Communities”, which hears cases and preliminary references under European Community law. The ECJ is based in Luxembourg.

EX-ANTE

A forward looking measure or estimate (literally, before the event). Compare with **ex-post**.

*See also **tracking error**.*

EXCESS BENEFITS/CONTRIBUTIONS (contracting out)

Benefits provided by/contributions to a **COMP**, **COMPSP** or an **appropriate scheme** which are over and above the **protected rights** benefits/contributions. These benefits/contributions are not subject to the rules applying to **protected rights** benefits/contributions.

EXCHANGE OF LETTERS

Used where a letter from an **employer** to an employee constitutes part or all of the documentation for an **individual arrangement**, and a copy is signed by the employee to signify acknowledgement of its terms.

EXECUTION ONLY

Where an agent simply executes his client's orders without giving any advice. Known in the US as discount brokerage.

EXEMPT UNIT TRUST

A **unit trust** specifically designed for pension funds and charities, which enjoys the same tax advantages as a directly invested pension fund's **assets**. It is normally managed by an investment organisation.

EXPECTED RATE OF RETURN ON ASSETS

Used in **FRS 17** to mean the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual **assets** held by the scheme.

EX-POST

A backward looking measure using actual historical data (literally, after the event). Compare with **ex-ante**.

See also tracking error.

EXPRESSION OF WISH

A means by which a **member** can indicate a preference as to who should receive any lump sum due on their death that is payable at the discretion of the **trustees**.

FAIR DEAL

Common name for an appendix to a **Cabinet Office Statement of Practice** published in 1999 entitled "Fair Deal for Staff Pensions". Revised and re-issued in 2004 with additional requirements.

FAIR VALUE

The amount for which an asset could be exchanged or a liability settled at arms length between knowledgeable parties.

FAS 87 & FAS 88

FAS 87 is the US Financial Accounting Standards Board's statement which deals with accounting for **pension costs** in **employers'** accounts. FAS 88 applies to employers' accounts when a scheme is wound up or if benefits are settled on termination of employment.

FINAL AVERAGE EARNINGS

See final pensionable earnings.

FINAL PAY SCHEME

See final salary scheme.

FINAL PENSIONABLE EARNINGS/PAY/SALARY

The **earnings** on which the benefits are calculated in a **final salary scheme**.

FINAL SALARY SCHEME

A **defined benefit scheme** where the benefit is related to the amount that the member is earning at the time of retirement, death or leaving **pensionable service** and to the period of pensionable service. The earnings taken into account are often an average over the last few years of pensionable service.

FINAL SALARY UNDERPIN

A minimum benefit calculated on a final salary basis provided by a **hybrid scheme** (definition 2).

FINANCIAL ASSISTANCE SCHEME (FAS)

A scheme established to assist members who have lost all or part of their occupational pensions benefits through employer insolvency but who will not be covered by the **Pension Protection Fund** as the wind up commenced before 6 April 2005 (and after 1 January 1997).

FINANCIAL OMBUDSMAN SERVICE (FOS)

The independent body set up by Parliament to help settle individual disputes between businesses providing financial services and their customers.

FINANCIAL REPORTING COUNCIL (FRC)

The independent regulator responsible for promoting confidence in corporate reporting and governance in the UK.

FINANCIAL REPORTING STANDARDS (FRS)

Accounting standards developed by the ASB are contained in Financial Reporting Standards (FRSs). They apply to all companies and other kinds of entity, including pension schemes, which prepare accounts that are intended to provide a true and fair view.

FINANCIAL SERVICES AUTHORITY (FSA)

The independent non-governmental body, given statutory powers by the Financial Services and Markets Act 2000. Regulates the financial services industry in the UK. Has a wide range of rule-making, investigatory and enforcement powers in order to meet four statutory objectives summarised in one aim - to promote efficient, orderly and fair markets and to help retail consumers achieve a fair deal.

FINANCIAL SERVICES COMPENSATION SCHEME (FSCS)

An independent body set up under the Financial Services and Markets Act 2000. The UK's statutory fund of last resort for consumers of authorised financial services firms. The FSCS is able to pay compensation if a firm is unable, or likely to be unable, to pay valid claims against it.

FINANCIAL STATEMENTS

The formal presentation of accounting information in a structured manner, the objective of which is to provide information about the financial position, performance and financial adaptability of the reporting entity.

The recommended contents of the financial statements of occupational pension schemes are contained within the Pension Scheme SORP. The Audited Accounts Regulations, which specify the contents of statutory financial statements, use the term 'accounts' rather than 'financial statements'.

FINANCIAL SUPPORT DIRECTION

A direction that can be made by the **Pensions Regulator** under s43 PA2004 to require an employer or a person "connected" or "associated" with it (such as a holding company) to put financial support in place for a **defined benefit scheme** within a specified period.

FIXED RATE REVALUATION

A method used by a **COSR** to revalue **GMP** between termination of **contracted out** employment and age 65(men), 60(women) as one of the alternatives to applying **section 148 orders**.

The rate is reviewed periodically.

FLAT RATE SCHEME

A **defined benefit scheme** which provides a benefit for each year of **pensionable service** that is not related to earnings.

FLEXIBLE RETIREMENT

1. The facility for an individual to continue working for their employer but simultaneously draw all or part of their pension from their employer's scheme. All benefits still have to be drawn by age 75.

This facility was introduced in FA2004.

2. The ability to take all or some benefits from an **occupational pension scheme** while remaining in the same employment.

FORFEITURE

The termination (or suspension) of all or part of the benefits under an **occupational pension scheme**, or a **personal pension scheme**.

The circumstances in which forfeiture can take place are limited by s91-s95 PA95 and regulations e.g. assignment or exercise of lien rule.

FORWARD CONTRACT

A transaction in which two parties agree to the purchase and sale of a commodity or **asset** at a fixed price at some future time under such conditions as the two agree.

FRAG 21/94

This guidance has been superseded by **AAF 01/06**. For year ends prior to 31 March 2007 it provided guidance on preparing and reviewing a report on the control policies and procedures of an investment custodian, investment manager or other service provider.

FRANKING

See anti franking requirements.

FRAUD COMPENSATION FUND

A replacement for the Pension Compensation Scheme which took effect from 6 April 2005. Payments can be made from the fund in cases where the **assets** of a scheme have been reduced since 6 April 1997 as a result of an offence involving dishonesty, including intent to defraud.

FRAUD COMPENSATION LEVY

A levy potentially payable to the **Fraud Compensation Fund** by all **occupational pension schemes** eligible for compensation from the Fund. It is only payable as and when needed. The Board of the **PPF** will determine which schemes are required to pay the levy and at what rate. **Defined contribution schemes** (not covered by the PPF) may be eligible for compensation and hence required to pay the levy.

FREE COVER

The maximum amount of death or **disability benefit** that an insurance company covering a group of lives is prepared to insure for each individual without production of evidence of health.

FREE STANDING ADDITIONAL VOLUNTARY CONTRIBUTIONS (FSAVCs)

Contributions to a pension contract separate from an **occupational pension scheme** that are effected by an **active member** of that scheme. Benefits are secured with a **pension provider** by contributions from the member only.

It is possible to **contract out** by using an **FSAVC scheme** in which case **contracted out rebates** will be received.

FREEZING ORDER

A freezing order has the effect that benefits cease to accrue and the scheme cannot be wound up. The **Pensions Regulator** can issue an order when it is considering whether to wind up a **defined benefit scheme**. It must be satisfied that it is necessary for member protection and that there is an immediate risk to the interests of the members or the assets of the scheme. It will normally last for three months but can be extended for up to six months by the Pensions Regulator.

FROZEN BENEFIT

A **preserved benefit**, strictly one not subject to **revaluation**.

FROZEN SCHEME

See paid up scheme.

FRS 17 - RETIREMENT BENEFITS

FRS 17 is mainly concerned with **defined benefit schemes**, but applies to all retirement benefits as well as pensions, for example medical care in retirement. Exemptions exist for the smallest entities.

It requires the scheme **assets** and **liabilities** to be valued on a **fair value** basis and the resulting surplus or deficit to be recognised as an asset or liability in the **balance sheet** of the reporting company. The components in the change in the net asset or liability over time are disclosed in its profit and loss account, with the exception of **actuarial gains and losses**, which are recognised in the **statement of total recognised gains and losses**.

FRS 17 requires extensive **disclosures** in the notes to the company's accounts.

FULLY INSURED SCHEME

A scheme where the **trustees** have effected an insurance contract in respect of each member which guarantees benefits corresponding at all times to those promised under the **scheme rules**.

*Sometimes incorrectly used to mean **insured scheme**.*

FUND ACCOUNT

A **financial statement** included in a scheme's annual accounts which gives details of the scheme's dealings with **members** and **investment income** and capital movements during the **scheme year**.

*The fund account is required by the **Audited Accounts Regulations** and is described in the **Pension Scheme SORP**.*

FUNDAMENTAL ANALYSIS

Assessment of a company's share value and potential for future cashflows, profit, and payment of dividends based on accounting, economic, and business information.

FUNDED UNAPPROVED RETIREMENT BENEFITS SCHEME (FURBS)

A funded **occupational pension scheme** that is not a **registered pension scheme**. It is thus unable to take advantage of the tax exemptions available to a registered pension scheme.

Most FURBS are top up pension schemes created to provide retirement benefits in addition to those that were permitted from an exempt approved scheme.

FUNDING

The provision in advance for future **liabilities** by the accumulation of **assets**, normally external to the **employer's** business.

FUNDING LEVEL

The relationship at a specified date between the **actuarial value of assets** and the **actuarial liability**. Normally expressed as a funding ratio or percentage.

The funding level may be calculated separately in respect of different categories of liability, e.g. pensions in payment and AVCs.

FUNDING METHOD

An approach used by the **actuary** in an **actuarial valuation**. Funding methods fall into two main groups: **accrued benefits funding methods** and **prospective benefits funding methods**. Examples include: the **projected unit, current unit, entry age, and attained age** methods. For more details, see **GN26** published by the Institute of Actuaries and Faculty of Actuaries (and adopted by the Board for Actuarial Standards (BAS) in 2007). The appropriate method depends on the purpose of the valuation. The method or methods used in a particular case should be adequately described in the **actuarial report**.

FUNDING RATE

Sometimes used to describe the required **contribution rate**.

FUNDING RATIO

The ratio of the **actuarial value of assets** to the **actuarial liability**.

FUTURES CONTRACT

A contract which binds two parties to complete a sale or purchase at a specified future date at a price which is fixed at the time the contract is effected. Exchange traded futures contracts have standard terms, and margin payments are required.

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

The canon of accounting methods, including accounting standards, which together constitute best practice in different accounting situations, especially where alternative methods are available.

The term can be applied to distinguish between accounting methods used in different circumstances and locations, for example small company GAAP and UK GAAP, and is sometimes referred to as 'generally accepted accounting practice'.

GOVERNMENT ACTUARY'S DEPARTMENT (GAD)

Acts as an actuarial consultancy, providing advice to many of the public **service** pension schemes. GAD is usually the body which certifies a private sector scheme as **broadly comparable** for **Fair Deal** purposes.

GILTS

Sterling **bonds** issued by the British Government.

GLOBAL CUSTODIAN

A **custodian** with responsibility for custody of a number of **assets** of different classes with different fund managers. Contrasts with multi-manager portfolios each having a separate **custodian**.

GLOBAL INVESTMENT PERFORMANCE STANDARDS (GIPS)

GIPS set out a voluntary code which aims to achieve fair representation and full disclosure of investment performance records. The standard provides a number of key ethical principles when quoting investment performance figures and enables comparison to be made. In the UK it is normal practice to have performance claims verified by an independent third party agency.

GN11 CERTIFICATE

Issued by the **scheme actuary** to the **trustees** certifying that the **cash equivalent** has been calculated using methods and assumptions in accordance with legislative requirements and **guidance notes**.

GN26

One of the guidance notes published by the Institute of Actuaries and Faculty of Actuaries (and adopted by the Board for Actuarial Standards (BAS) in 2007). It sets out descriptions of the **funding methods** that are in most common use.

GRADED SCALE SCHEME

See salary grade scheme.

GRADUATED PENSION SCHEME

The state earnings related scheme which commenced on 3 April 1961 and terminated on 5 April 1975.

GRADUATED RETIREMENT BENEFIT

Pensions payable as a result of membership of the **graduated pension scheme**, the amount being dependent on the graduated NI contributions paid.

GROUP PERSONAL PENSION (GPP)

An arrangement made for the employees of a particular **employer**, or for a group of self employed individuals, to participate in a **personal pension scheme** with the same pension provider. Each member has a separate policy with the pension provider, but contributions are collected together.

GUARANTEED ANNUITY

An **annuity** payable for a guaranteed period of years and thereafter throughout life. On the death of the annuitant, payment may continue for any balance of the guaranteed period or may in certain circumstances be paid as a lump sum.

GUARANTEED ANNUITY OPTION

The right to apply the proceeds of an insurance policy to buy an **annuity** at a rate guaranteed in the policy.

GUARANTEED MINIMUM PENSION (GMP)

The minimum pension which a salary related **occupational pension scheme** must provide in respect of contracted out contributions paid between April 1978 and April 1997, as a condition of **contacting out**.

*Replaced by the **reference scheme test** for contributions paid after April 1997.*

GUIDANCE

1. Guidance Notes (GN) published by professional bodies such as the Institute of Actuaries and Faculty of Actuaries. Most were adopted by the Board for Actuarial Standards (BAS) in 2007 as practice standards.
2. Notes published by the **Pensions Regulator** from time to time on compliance with the provisions of PA2004.
3. Notes previously published by the then Inland Revenue (now **HMRC**) describing the requirements for tax approval in respect of specified types of schemes.

HANCOCK ANNUITY

An annuity for an employee, ex employee or dependant purchased by the **employer** at or after the time of the employee's retirement, death or leaving service.

HEDGE FUND

A fund that has the ability to use **leverage** and to take both **long and short positions** with the aim of achieving an **absolute return**. A large variety of hedge fund strategies exists and the level of **risk** taken will vary.

Investors looking for a diversified exposure to hedge funds will normally opt for a fund of hedge funds, which is a fund with underlying investments in several hedge funds covering different strategies and geographical areas.

HEDGING

A strategy that aims to reduce potential losses in an investment by reducing the overall level of **risk**. For example, transacting a foreign currency contract at an agreed future price to protect against currency fluctuations, which might affect the value of an overseas investment.

HM REVENUE & CUSTOMS (HMRC)

Formed in 2005, following the merger of the Inland Revenue and HM Customs and Excise. Responsible for the tax approval of pension schemes and taxation of contributions and benefits.

HMRC PENSIONS SCHEME SERVICES

Deals with the policy, operational and technical work relating to pension schemes.

HOME RESPONSIBILITIES PROTECTION (HRP)

Protection of entitlement to the basic pension for people unable to undertake regular employment because they are caring for children or a sick or disabled person at home.

HYBRID SCHEME

1. An **occupational pension scheme** which has both defined benefit and defined contribution sections.
2. An **occupational pension scheme** in which the benefit is calculated as the better of two alternatives, for example on a **final salary** and a **money purchase** basis.

IAS 19

Applies to employee benefits (including **defined benefit schemes**) and replaces **FRS 17** for most UK listed companies. Other companies are currently exempted.

The principle behind IAS 19 is that all employee benefits, including those such as bonuses and health insurance, which have been earned during a financial year, should be accounted for and reported in that year and not in the year in which they are paid.

The main difference with FRS 17 is the provision in IAS 19 for **corridor**ing. IAS 19 requires extensive **disclosures** in the notes to the company's accounts.

ILL HEALTH EARLY RETIREMENT

Immediate payment of retirement benefits on medical grounds before **normal pension date**. The benefit may exceed that payable on **early retirement** in other circumstances.

IMMEDIATE ANNUITY

An **annuity** which commences immediately or shortly after its purchase.

IMPLEMENTATION PERIOD

Where this relates to a **pension credit** it is the period of four months during which the **pension scheme** must implement the **pension sharing order**.

IMPROVEMENT NOTICE

A notice issued by the **Pensions Regulator** to a person whom they believe has breached legislative requirements. The notice directs the person to take (or refrain from taking) certain actions, and must contain information relating to the breach in question and the steps taken to remedy the breach together with timescales for compliance. Civil penalties may apply if the improvement notice is not complied with.

INCOME DRAWDOWN

Withdrawal of income from a **registered pension scheme** that provides benefits on a **money purchase** basis, while **annuity** purchase is deferred.

INCOME WITHDRAWAL

See *income drawdown*.

INDEPENDENT AUDITOR

An individual or firm with no direct or indirect involvement with the **pension scheme**, **employer** or **members**, other than performing the duties of the **auditor**.

*The title of the **auditor's report** is prefixed by the word 'independent' to emphasise this.*

*See also **scheme auditor**.*

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**.

*Under s22-s26 PA95, an independent trustee is required, in some circumstances, to be appointed to an **occupational pension scheme**, where an **insolvency practitioner** has been appointed over an employer.*

INDEXATION OF INVESTMENTS

An investment strategy designed to produce a **rate of return** in line with a particular index, either by replicating the constituents or by sufficient sampling to give a proxy.

*See also **passive investment management and tracker fund**.*

INDEXATION OF PENSIONS

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.

Occasionally used in relation to index linking of **final pensionable earnings**: see *definition 1 of **dynamisation***.

INDIRECT DISCRIMINATION

This is when an apparently neutral criterion, provision or practice in fact disadvantages individuals of a particular gender, age, sexual orientation, race or religion.

INDIVIDUAL ARRANGEMENT

An **occupational pension scheme** with only one **member** where the documentation, often an **exchange of letters**, relates only to that member.

INDIVIDUAL PENSION ACCOUNTS (IPA)

Are not **registered pension schemes**. They are an additional way of holding **assets** within a registered pension scheme, whatever type of scheme the individual has.

Use of IPAs provide a means of investing pension assets in **unit trusts** and **investment trusts**, at the **member's** choice which can be changed according to the individual's preferences over a working lifetime.

INDUSTRY WIDE SCHEME

A **multi employer scheme** for non **associated employers** in a particular industry.

INFLATION PROOFING

Commonly used to describe **indexation of pensions** and/or the purpose of a **discretionary increase**.

INSURED SCHEME

A **pension scheme** where the sole long term investment medium is an insurance policy (other than a **managed fund** policy).

INTEGRATION

The design of **pension scheme** benefits to take into account all or part of the state pension scheme benefits which the **member** is deemed to receive.

*One form of integration involves a **state pension offset**.*

INTEREST COST

Used in **FRS 17** and **IAS 19** to mean the expected increase during the period in the **present value** of the **scheme liabilities** because benefits are one period closer to crystallisation.

INTEREST RATE RISK

The risk of a fall in the value of a security, especially a **bond**, resulting from a rise in interest rates.

INTERIM TRUST DEED

A form of **trust deed** commonly used to establish a **pension scheme** on broadly stated terms leaving the detailed provisions and the **scheme rules** to be provided later by a **definitive trust deed**.

A scheme may be established by other methods, for example by a board resolution, declaration of trust or exchange of letters.

INTERNAL CONTROLS

This specifically relates to the **Code of Practice** 'Internal Controls', issued by the **Pensions Regulator** which defines them as :

- arrangements and procedures to be followed in the administration and management of a **pension scheme**
- systems and arrangements for monitoring the administration and management procedures, and
- arrangements and procedures to be followed for the safe custody and security of the assets of the scheme.

It is a legal requirement under PA 2004 that all pension schemes must establish and operate adequate internal controls.

INTERNAL DISPUTE RESOLUTION PROCEDURE (IDRP)

Occupational pension schemes (subject to exceptions) are required by s50 PA95 (as amended) to have a procedure to deal with disputes between **trustees** on the one hand and **members** and **beneficiaries** on the other hand.

See also dispute resolution procedure.

INVESTMENT MANAGEMENT AGREEMENT (IMA)

The document agreed between an **investment manager** and the **trustees** of a scheme setting out the basis upon which the manager will manage a portfolio of **investments** for the **trustees**.

INVESTMENT MANAGEMENT ASSOCIATION (IMA)

The industry body representing the investment industry, whose role is to make representations to the UK government, publicise the use of investment funds and promote training and knowledge throughout the industry.

INVESTMENT MANAGER

An individual or body to which the investment of the whole or part of the **assets** of the scheme is delegated by the **trustees** in accordance with the provisions of the **statement of investment principles** and the **investment management agreement**.

INVESTMENT PERFORMANCE MEASUREMENT

The comparison of the return of an investment portfolio and/or its constituent parts with one or more **benchmarks** over a period or range of periods.

Typical comparators include the notional return of a model fund or the movement in market indices but pension schemes are now discouraged from comparing their investment performance with the actual **rates of return** of other funds.

INVESTMENT POLICY/STRATEGY

The periodic decisions regarding the types and proportions of **assets** in which an investment portfolio is to be invested.

See also statement of investment principles.

INVESTMENT REGULATED PENSION SCHEME (IRPS)

A scheme in which one or more members, or someone closely related to the member, can directly or indirectly influence or advise on the investments held. An **occupational pension scheme** can only be an IRPS if it has 50 or fewer members and at least 10% of the members make the investment control decision.

INVESTMENT REPORT

A document communicating details of the **assets** of a fund, their deployment and changes, often with background commentary.

There are two types of investment reports of importance to **pension schemes**.

1. A report by the **trustees** contained in the scheme's **annual report**.
2. A periodic report from an **investment manager** giving details of the investments held and appropriate performance measurements of the portfolio.

INVESTMENT TRUST

A limited liability company quoted on the London Stock Exchange, whose sole business is investing in securities.

The value of its own shares tends to reflect the underlying value of its portfolio of investments.

INVITATION TO TENDER (ITT)

A substantive document issued to parties interested in bidding for a contract, setting out the **services** and products to be purchased and the detailed requirements to be satisfied by bidders including any requirements to provide pensions.

Sometimes issued as an invitation to negotiate.

KEY FEATURES DOCUMENT

A compulsory document giving key information to prospective buyers of most life and pension investments.

LOCAL GOVERNMENT PENSION SCHEME (LGPS)

A collective name for a series of separately administered schemes which are governed by

1. the Local Government pension scheme Regulations 1997 in England and Wales; and
2. Local Government pension scheme (Scotland) Regulations 1998 in Scotland; and
3. Local Government pension scheme Regulations (Northern Ireland) 2002 in Northern Ireland.

The LGPS primarily provides benefits for local government staff.

LATE RETIREMENT

The payment of retirement benefits to a **member**, after **normal pension date**.

The benefit may be increased because of late payment.

LATE RETIREMENT PIVOT AGE

The age set in **scheme rules** (or otherwise determined), above which a **member** can take a pension which may be actuarially enhanced for late payment.

See age discrimination.

LATER EARNINGS ADDITION

An amount to be added when calculating the minimum benefit for the purpose of **anti franking requirements**, where a **member** continues in **pensionable service** after **contracted out** employment ceases, and the level of earnings is higher when he/she retires or leaves than on ceasing to be contracted out.

LEVEL ANNUAL PREMIUM METHOD

A method of determining the premiums payable under an insurance contract so that the premium for each individual remains constant unless there is a change in benefits.

LEVERAGE

The use of borrowed money to increase the investment in a portfolio, which increases **risk** by magnifying both gains and losses. This may be achieved by using **derivatives**.

Also refers to the debt/equity ratio on a company's **balance sheet**.

LEVY

This term usually refers to the general levy which meets the expenditure of the **Pensions Ombudsman**, the **Pensions Regulator** and grants made by the Pensions Regulator (e.g. to **TPAS**). It is payable by **registered pension schemes** and **personal pension schemes**.

See also fraud compensation levy, pension protection levy and PPF administration levy.

LIABILITIES

Amounts which a **pension scheme** has an obligation to pay now or in the future.

The amounts may not be immediately ascertainable and some liabilities may be dependent on the occurrence of future events.

LIABILITY DRIVEN INVESTING/INVESTMENT (LDI)

Any investment policy/strategy that has a **benchmark** that is specific to the **liabilities** of the **pension scheme**. The objective is that the changes that occur in the value of the investments will be closely related to the changes in the value of the liabilities.

LIEN RULE

A rule in an **occupational pension scheme** under which an **employer** may recover from the scheme any money due to it through a criminal, fraudulent or negligent act or omission by the employee.

Restrictions on such a rule are contained in s91-s95 PA95.

LIFETIME ALLOWANCE (LTA)

Overall maximum capital amount of tax relievably pension savings that any one individual can accumulate in all pension arrangements. This is £1.6 million for 2007/08 tax year (rising to £1.8 million by 2010/11).

The relevant statutory provision is s218 FA2004.

*See **personal lifetime allowance**.*

LIFETIME ALLOWANCE CHARGE

The tax charge that is levied on any excess funds for an individual who has a capital amount of pension savings that exceed the lifetime allowance. The tax charge is applied on the excess.

The relevant statutory provision is s214-226 and schedule 34 FA2004.

LIFESTYLING

An **asset allocation strategy** used mainly in **defined contribution schemes** whereby a member's investments are adjusted depending on age and term to retirement. Typically **assets** are switched from **equities** into **bonds** and cash as retirement approaches.

LIFE ASSURANCE SCHEME

A scheme that provides a benefit only on the death of a **member** (normally on death in service).

LIMITED PRICE INDEXATION (LPI)

This refers to the requirement under PA95 to increase, by 5% pa or RPI if less, pensions in payment under an **occupational pension scheme** approved under Chapter I (excluding benefits secured from **additional voluntary member contributions**) and pensions in payment arising from **protected rights** under an **appropriate personal pension scheme** or an **appropriate personal pension stakeholder pension scheme**. It applies to pensions accrued in respect of **service** after 5 April 1997.

With effect from 6 April 2005 occupational pension schemes were only required to provide indexation increases up to 2.5% pa in respect of **service** on or after that date and there was no requirement on other schemes to provide indexation on any pensions in payment.

LONG POSITION

A long position means that the investor actually holds the security or derivative.

*See also **short position**.*

LONG SERVICE BENEFIT

Under the **preservation** requirements of PSA93 the benefit payable at **normal pension age** with which **short service benefit** must be compared.

LONG TERM DISABILITY INSURANCE

*See **permanent health insurance**.*

LONGEVITY

Length of life. There has been an increasing trend for people to have a greater life expectancy (increased longevity), which has led to an increase in the cost of pension provision.

LOW EARNINGS THRESHOLD (LET)

A defined amount between the **lower earnings limit** and the **upper earnings limit**. For **State Second Pension** purpose, an employee earning below the **low earnings threshold** but above the lower earnings limit is treated as earning the equivalent to the low earnings threshold.

LOWER EARNINGS LIMIT (LEL)

The minimum amount that must be earned in a pay period to qualify for a Basic Pension. Up to 5 April 1999, the lower earnings limit on which employer NI contributions were based. Up to 5 April 2000, the lower earnings limit on which employee NI contributions were based.

*Together with the **LET** and the **UEL**, the **LEL** defines the salary bands used to calculate **State Second Pension**.*

LUMP SUM

*See **pension commencement lump sum**.*

MANAGED FUND

An arrangement where the **assets** of a scheme are invested on similar lines to the operation of **unit trusts** by an external **investment manager**.

MARKET LEVEL ADJUSTMENT

An adjustment to a payment such as a **surrender value** or **transfer value** of an insurance fund to reflect current market conditions.

*See **market value adjustment**.*

MARKET VALUATION

A type of **actuarial valuation** where the **actuarial value of assets** is generally taken as either the **market value** or 'smoothed' market value of the **assets** and the **actuarial assumptions** used to calculate the **actuarial liability** are set consistently with this approach.

MARKET VALUE

The price at which an **asset** might reasonably be expected to be sold in an open market.

*See **fair value**.*

MARKET VALUE ADJUSTMENT (MVA)

An adjustment applied to an **actuarial liability** to reflect the difference between the **market value** and **actuarial value of assets**.

*Examples of the application of an **MVA** would include:*

1. *a process applied when an insurance policy is surrendered before the maturity date which may result in a reduction in the value paid out;*
2. *an adjustment to a **transfer value** paid by a **defined benefit scheme** to reflect market conditions.*

MARK-TO-MARKET

Valuing stocks or other financial instruments in a portfolio against the current market price, for example to determine the unrealised profit or loss to date.

MATCHING

1. The policy of selecting **assets** of a nature, incidence or currency similar to that of the expected outgoings, or
2. An accounting term, meaning that income and expenditure are matched with one another.

*See also **accruals concept**.*

MATURE SCHEME

A **defined benefit scheme** with a high proportion of **pensioners** and a low proportion of **active members**.

MEDIAN

The middle item in a population. Used as a measure of central tendency that is unaffected by extreme values at either end.

MEMBER

A person who has been admitted to membership of a **pension scheme** and is entitled to benefit under the scheme.

Sometimes narrowly used to refer only to an active member.

*The definition of member depends on its context as both **scheme rules** and **legislation** may give a different meaning to the definition above.*

MEMBER NOMINATED DIRECTOR (MND)

A person who becomes a director of a **corporate trustee** of an **occupational pension scheme** under the **member nominated trustee** legislation as set out in s242 PA2004.

MEMBER NOMINATED TRUSTEE (MNT)

A person who becomes a **trustee** of an **occupational pension scheme** under the member nominated trustee legislation as set out in s241 PA2004. Employer opt outs cease to exist under PA2004, so that trustees must ensure that arrangements are put in place for one third of trustees to be member nominated. Further details are set out in a **code of practice**.

MEMBER PARTICIPATION

The active participation of **members** in the affairs of an **occupational pension scheme**. This may be directly through representation on the **trustee** body, or indirectly through joint consultative committees with an **employer**.

*See also **member nominated trustee** and **member nominated director**.*

MEMBERSHIP RECONCILIATION

The agreement of membership numbers and status against membership records, commonly used to identify the movements over a defined period of time.

MEMBER'S NORMAL CONTRIBUTIONS

The regular contributions required from an active member by the scheme rules.

MiFID

Markets in Financial Instruments Directive, MiFID, is a EU Directive which came into force from 1 November 2007 for all European Member States, it replaced the existing EU Investment Services Directive. It aims to harmonise financial markets across the EU to create a consistent approach to the regulation of financial markets. In the UK, the **FSA** has approached the adoption of MiFID through a process of consultation on areas such as best execution, conflicts of interest and senior management arrangements, amongst others.

MIGRANT MEMBER RELIEF

The ability to claim UK income tax and corporate tax relief for employee and **employer** contributions to overseas pension schemes.

The relevant statutory provision is s243 and schedule 33 FA2004.

MINIMUM APPROPRIATE PERSONAL PENSION

*See **rebate only personal pension**.*

MINIMUM CONTRIBUTIONS

Contributions payable to an **appropriate scheme** by **HMRC NICO** in respect of a **member** who has elected to **contract out**. The contributions consist of the **age related rebate** and, where payment is to an **APPS** or **APPSHP**, basic rate tax relief on the employee's share of the rebate.

MINIMUM FUNDING REQUIREMENT (MFR)

A requirement under s56 PA95 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**. The MFR was replaced by the **statutory funding objective** for **actuarial valuations** from 22 September 2005.

MINIMUM PAYMENTS

The minimum amount which an employer must pay into a **COMP**. The minimum amount consists of the flat rate **contracted out rebate** in respect of employees who are **contracted out**.

See also age related rebate.

MNT REGULATIONS

The Occupational Pension Schemes (Member nominated Trustees and Directors) Regulations 2006 (SI 2006/714) made under s241-243 PA2004 which deal with **member nominated trustees** and **member nominated directors**.

MODIFICATION ORDER

An order by the **Pensions Regulator** under s69-s72 PA95 modifying an **occupational pension scheme** (e.g. to allow payment of **surpluses** to an **employer**) overriding the terms of the scheme.

MODIFIED CONTRIBUTION RATE

The contribution (**employer** and employee) obtained by adjusting the **standard contribution rate** to allow for any **actuarial surplus** or **actuarial deficiency**. It is normally expressed as a percentage of pensionable pay. There are various ways of amortising the actuarial surplus or deficiency, and adjusting the standard contribution rate. The method used should be appropriate for the purpose.

MODIFIED PREMIUM VALUE

A **premium value** which excludes the loadings made by the insurer in premium rating for initial expenses, such as issue expenses, commission and stamp duty.

MONEY PURCHASE

The provision of an individual **member's** benefits by reference to contributions paid into a **pension scheme** by or in respect of that member, usually increased by the investment return on those contributions.

MONEY PURCHASE SCHEME

A **pension scheme** providing benefits on a **money purchase** basis.

MONEY PURCHASE UNDERPIN

A minimum benefit calculated on a **money purchase** basis provided by a **hybrid scheme** (definition 2).

MONEY WEIGHTED RETURN

An absolute measure of the **rate of return** earned by the **assets** in a fund which is affected by the timing of cash flows into or out of the fund.

To be contrasted with time weighted return.

MORAL HAZARD

PA2004 includes “moral hazard” provisions to protect the **PPF** and those paying the levy. This allows the **Pensions Regulator** to look to third parties (i.e. not participating employers) to contribute to pension schemes in certain circumstances.

See also contribution notice and financial support direction.

MORTALITY ASSUMPTIONS

Assumptions used by **actuaries** to project average death rates among scheme **members** before or after retirement.

See also longevity.

MULTIPLE BENEFIT SCHEME

See hybrid scheme (definition 1).

MULTI-EMPLOYER SCHEME

1. An **occupational pension scheme** that covers the employees of more than one employer.
2. Used in **IAS 19** to mean a **pension scheme** that:
 - pools the assets contributed by various entities not in common control; and
 - uses those assets to provide benefits to employees of more than one entity on the basis that contribution and benefit levels are determined with no regard to the entity that employs the employees concerned.

MYNERS CODE

A set of voluntary principles for UK **pension funds** encompassing governance, investment decision making, and reporting arising from the **Myners Review** and revised periodically following consultation and discussions within government.

MYNERS REVIEW

The review of issues and challenges affecting institutional investment decision making carried out by Paul Myners on behalf of the UK Government, which was published in 2001. A key recommendation was that **pension fund trustees** should embrace a set of principles now known as the **Myners Code**.

NATIONAL INSURANCE CONTRIBUTIONS OFFICE (NICO)

The office, part of **HMRC**, responsible for the collection and recording of national insurance contributions.

NATIONAL INSURANCE SERVICES TO PENSIONS INDUSTRY (NISPI)

A Directorate within the **National Insurance Contributions Office (NICO)**. It deals with **occupational pension schemes** and **appropriate personal pension schemes** that are **contracted out** of the state additional pension.

NET ASSETS STATEMENT

A summary of the net assets (**assets** less **liabilities**) of an **occupational pension scheme**, usually presented as part of the **audited accounts** in the **annual report**.

*This does not take account of the liabilities to pay benefits after the date of the statement which is dealt with in the **actuarial valuation**.*

NOMINATION

*See **expression of wish**.*

NON CONTRIBUTORY SCHEME

A scheme that does not require contributions from **active members**.

NON DISCRIMINATION RULE

An overriding rule which treats **occupational pension schemes** as including a rule requiring **trustees** or managers not to discriminate unlawfully.

NORMAL CONTRIBUTIONS

See **ordinary annual contributions** and **member's normal contributions**.

NORMAL PENSION AGE (NPA)

Earliest age at which a **member** can receive full pension benefits. It is not necessarily the same as **normal pension date** or **normal retirement age**.

NORMAL PENSION DATE (NPD)

The date at which a **member** of a **pension scheme** normally becomes entitled to receive his/her retirement benefits.

NORMAL RETIREMENT AGE (NRA)

Age of a **member** at the **normal retirement date** 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.

NOTIFIABLE EVENTS

An event that must be notified to the **Pensions Regulator** by **employers, trustees** and managers of **defined benefit schemes** that may increase the risk of claims on the **Pension Protection Fund**.

The relevant statutory provisions are s69 PA2004 and the Pensions Regulator (Notifiable Events) Regulations 2005 (SI 2005/900) as amended.

OBJECTIVE JUSTIFICATION

Under legislation **indirect discrimination** will be objectively justified if it pursues a legitimate aim and is a proportionate means of achieving that aim.

OCCUPATIONAL PENSION SCHEME

A scheme established by an **employer**, or on behalf of a group of employers, to provide pensions and/or other benefits for or in respect of one or more employees on leaving **pensionable service** or on death or retirement.

OPEN ENDED INVESTMENT COMPANY (OEIC)

A **pooled investment vehicle** structured as a limited company in which investors can buy and sell shares on an ongoing basis. The number of units (or shares) in the fund varies from day to day according to the number of investors wishing to buy or sell holdings in the fund.

OPEN MARKET OPTION (OMO)

The option to apply the proceeds of an insurance or investment contract to buy an **annuity** at a current market rate from the same or another insurance company.

OPTION

The right but not the obligation to buy (**call option**) or sell (**put option**) a specific security at a specified price (the exercise or strike price), at or within a specified time (the expiry date). This right is obtained by payment of an amount (known as the premium) to the writer (seller) of the option, and can be exercised whatever happens to the security's market price.

Options can also be purchased on stock indices, in which case they are usually cash settled at maturity.

OPTING OUT

A decision by an employee to leave or not to join an **occupational pension scheme** of the **employer**.

ORDINARY ANNUAL CONTRIBUTION

Used in Practice Notes (IR12) to denote the annual contributions payable to an **occupational pension scheme** approved under Chapter I by the **employer** on a common basis e.g. a fixed amount or fixed percentage of payroll.

See also special contributions.

OVERRIDING LEGISLATION

The application of statutory requirements to **pension schemes** by means of provisions which directly override **scheme rules**.

OVERSEAS PENSION SCHEME

A pension scheme which is established in a country outside the UK (certain conditions apply, under legislation) and is not a **registered pension scheme**.

See also Qualifying Recognised Overseas pension scheme.

PAID UP BENEFIT

A **preserved benefit** which is fully secured for an individual **member** under a contract of insurance under which premiums have ceased to be payable in respect of that member.

PAID UP PENSION (PUP)

See paid up benefit.

PAID UP SCHEME

A **closed scheme** where no further contributions are payable, no further benefits accrue and **members** are entitled to **preserved benefits**.

The **assets** of the scheme continue to be held by the **trustees** to be applied in accordance with the **scheme rules**.

PARTICIPATING EMPLOYER

An **employer**, some or all of whose employees have the right to become **members** of an **occupational pension scheme**.

PASSIVE INVESTMENT MANAGEMENT

A style of managing a portfolio by linking the investments to a particular index, such as the FTSE All Share Index, so that the portfolio value moves in line with that index.

See also tracker fund.

PASSPORT

A certificate issued by **GAD** (enduring for up to 2 years) confirming that a named private sector **pension scheme** is **broadly comparable** to a specific **public service pension scheme**.

“Assessment Of Broad Comparability Of Pension Rights” is a Statement of Practice (issued by the Government Actuary’s Department) of how Broad Comparability is tested in transfers out of the public sector.

PAST SERVICE

Pensionable service before a specified date.

PAST SERVICE BENEFIT

A benefit granted for **past service** and/or **pre scheme service**.

PAST SERVICE COST

Used in **FRS 17** and **IAS 19** to mean the increase in the **present value** of the **scheme liabilities** related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

PAST SERVICE RESERVE

Generally used to describe the **present value** of all benefits accrued to the date to which the calculations relate by reference to projected earnings.

PAY AS YOU GO (PAYG)

An arrangement under which benefits are paid out of revenue and no **funding** is made for future **liabilities**.

The state pension scheme is pay as you go.

PAYMENT SCHEDULE

A schedule, required under s87 PA95 for **money purchase occupational pension schemes** that are **registered pension schemes**, **specifying contribution rates** to be paid and the date that such payments must be received by the **trustees**.

PENSION COMMENCEMENT LUMP SUM

A lump sum paid by a **member** (who is under age 75) to a **registered pension scheme** when their pension comes into payment.

The relevant statutory provision is s166 and Schedule 29 of FA2004.

PENSION CREDIT

1. An income related (means-tested) benefit that boosts a pensioner’s state pension to ensure they have a minimum level of income.
2. The benefits to which the ex spouse of a scheme **member** becomes entitled to following a **pension sharing order**.

PENSION DEBIT

The amount of benefit rights given up by a scheme **member** when a **pension sharing order** is made in respect of that member.

PENSION FRACTION

The fraction of **pensionable earnings** for each year of **pensionable service** that forms the basis of the pension calculation in a **defined benefit scheme** or a **career average scheme**.

PENSION FUND

Strictly speaking the **assets** of a **pension scheme** but very often used to denote the pension scheme itself.

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.

*This total may be established by relation to, for instance, a multiple of the annual rate of pension or the **accumulated contributions** of the late **member**.*

PENSION INCREASE

An increase in a pension in payment.

*Such an increase may arise as a result of **escalation** or **indexation of pensions** or may be a **discretionary increase**.*

PENSION INPUT

The amount that is tested against the **annual allowance** for the **pension input period**. In assessing whether an individual has exceeded their Annual Allowance, schemes must test the pension input in each year against the Annual Allowance. There are different methods of calculating the amount depending on the type of pension scheme.

The relevant statutory provision is s238 FA2004.

PENSION INPUT PERIOD

The period over which the **pension input** is calculated. This is normally the **scheme year** but may be a different period.

The relevant statutory provision is s238 FA2004.

PENSION PROTECTION FUND (PPF)

A statutory fund to pay compensation to members of eligible **defined benefit schemes** when there is a **qualifying insolvency event** in relation to the **employer** and where there are insufficient **assets** in the **pension scheme** to cover **PPF compensation levels**.

The PPF was established under PA2004 with effect from 6 April 2005.

PENSION PROTECTION FUND COMPENSATION LEVELS

Individuals that have already reached **normal pension age** or are in receipt of a survivor's pension or a pension on the grounds of ill health:

- are compensated to the level of 100% of their current pension in payment
- but only pension in respect of service from 6 April 1997 will increase; and
- this increase is in line with the Retail Prices Index to a maximum of 2.5% per annum.

For other members:

- the compensation level is 90% of their accrued benefits
- plus **revaluation**
- subject to an overall cap prescribed by legislation; and
- pension increases in payment will be as described above.

PENSION PROTECTION FUND LEVY

A levy payable by all **occupational pension schemes** eligible for protection under the PPF. The levy, known as the **pension protection levy**, is based on a combination of scheme based and risk based elements.

The scheme based element is based on the number of members within a scheme.

The risk based element takes account of the **funding level** of a scheme and the risk of insolvency for the **sponsoring employer**. It may also take account of the value of certain **contingent assets**, guarantees and other commitments to the scheme from the sponsoring employer.

PENSION SCHEME

An **occupational pension scheme**, a **personal pension scheme**, a **stakeholder pension scheme**, or an **FSAVC scheme**.

PENSION SCHEMES REGISTRY

The **Pensions Regulator** maintains a register of all UK **pension schemes**.

PENSION SCHEME SORP

The **Statement of Recommended Practice** that applies to the accounts of **occupational pension schemes**. It is issued by the **Pensions Research Accountants Group (PRAG)**.

SORP 1 'pension scheme Accounts' was issued in 1986. The pension scheme SORP was updated and issued by PRAG in September 1996 as 'Financial Reports of pension schemes'. A revised edition was issued in November 2002 and a further addition was issued in the summer of 2007.

PENSION SHARING ORDER

An order made in accordance with the provisions of Chapter I of Part IV of the Welfare Reform and Pensions Act 1999 which makes provision for the pension rights of a scheme **member** to be split on divorce.

PENSION TAX RELIEF AT SOURCE (PTRAS)

The procedure whereby contributions to a **registered pension scheme** are deducted from the member's pay before tax is calculated under PAYE, giving immediate tax relief at the highest applicable rate.

PENSION TRACING SERVICE

A service operated by the **Pensions Service** allowing **members** of **pension schemes** to trace lost pension schemes.

PENSIONABLE AGE

Used in legislation (Schedule IV PA95) to denote **state pensionable age**.

PENSIONABLE EARNINGS

The earnings on which benefits and/or contributions are calculated under the **scheme rules**.

*One or more elements of earnings (e.g. overtime) may be excluded, and there may be a **state pension offset**.*

PENSIONABLE EMPLOYMENT

Employment where an individual is able to join a **registered pension scheme** whether or not he/she has actually done so.

PENSIONABLE SERVICE

The period of **service** which is taken into account in calculating pension benefits or other benefits.

*PSA93 gives the term a statutory definition for the purposes of the **preservation, revaluation and transfer payment requirements** of the Act. PA95 gives a further statutory definition.*

PENSIONER

A person who is currently receiving a pension from a **pension scheme**.

*See **annuitants**.*

PENSIONS OMBUDSMAN

The Pensions Ombudsman is a tribunal non departmental public body. Its function is to investigate and determine complaints of injustice caused by maladministration and disputes of fact or law brought by **members** of **occupational pension schemes** and their spouses and dependants, against trustees, managers or **employers** of those schemes. Complaints, but not disputes, can also be brought by the same people against the administrators of schemes.

PENSIONS REGULATOR

The UK regulator of work based **pension schemes**. The Pensions Act 2004 gives the Pensions Regulator a set of specific objectives:

- to protect the benefits of members of work based pension schemes;
- to promote good administration of work based pension schemes; and
- to reduce the risk of situations arising that may lead to claims for compensation from the **Pension Protection Fund** (PPF).

PERMANENT HEALTH INSURANCE (PHI)

An insurance policy, which pays an income while an individual is unable to work because of accident or illness. It can be purchased by an individual, or by a company for a group of its employees.

PERMITTED INVESTMENTS

In general the types and classes of investment allowed to **trustees** under a **trust deed** and in accordance with current legislation.

PERPETUITIES, RULE AGAINST

A rule of law (in England, Wales and Northern Ireland) setting a maximum period within which benefits under a **trust** must vest absolutely.

*Certain **pension schemes** are exempted by s163 PSA93.*

PERSONAL ACCOUNTS

The national low cost portable pensions savings scheme proposed by the Secretary of State for Work and Pensions in 2007 and intended to be introduced in 2012.

PERSONAL LIFETIME ALLOWANCE (PLA)

The amount of an individual's pre **A-Day** rights registered with **HMRC** for protection from the imposition of a **lifetime allowance charge**.

PERSONAL PENSION SCHEME (PPS)

A scheme previously approved by the then Inland Revenue which was not an **occupational pension scheme**. A personal pension scheme can be a **stakeholder pension scheme** if the necessary conditions are met.

See also self invested personal pension and appropriate scheme.

PHASED ANNUITY

A practice under which one or more arrangements are effected simultaneously to allow phased drawing of benefits (phased annuity) by an individual.

PIVOTAL AGE

The age at which it may be more advantageous to cease to **contract out**, and rejoin **State Second Pension**.

POOLED INVESTMENT VEHICLE

A fund in which a number of investors pool their assets, which are managed on a collective basis. The **assets** of a pooled investment vehicle are denominated in units that are revalued regularly to reflect the values of the underlying assets. Common types of pooled funds include: **open ended investment companies (OEICs)**, **real estate investment trusts (REITs)**, **unit linked pension funds**, and **unit trusts**.

Compare with segregated fund.

POSTPONED RETIREMENT

The situation where a **member** has reached **normal pension date** and pension payments have not commenced.

PPF OMBUDSMAN

An independent, levy funded, individual who determines complaints against the **Pension Protection Fund** and the **Financial Assistance Scheme**.

PRACTICE NOTE 15 (Audit)

A **practice note** issued in 1997 by the **Auditing Practices Board** on the audit of **occupational pension schemes** in the UK. Revised practice notes were issued in November 2004 and March 2007.

Practice notes are intended to assist auditors in applying Auditing Standards of general application to particular circumstances and industries. They are persuasive rather than prescriptive. However, they are indicative of good practice.

PRE SCHEME SERVICE

Employment before the start of the relevant **pension scheme** or before entry into membership.

PREMIUM VALUE METHOD

A basis of valuation of a long term insurance policy for **occupational pension scheme** accounting purposes, based on the equivalent single premium an insurer would charge at the date of valuation to provide the benefits purchased to date.

It is generally used to value contracts where there are underlying guarantees, such as **with-profit**, deposit administration or **unitised with profit** policies.

See paragraph 2.97 of the pension scheme SORP.

PRESENT VALUE

The total of a series of future payments or receipts discounted to the date to which the calculation relates.

See also discounting.

PRESERVATION

The granting by a scheme of **preserved benefits** to a **member** leaving **pensionable service** before **normal pension age** under an **occupational pension scheme**, in particular in accordance with minimum requirements specified by PSA93.

PRESERVED BENEFIT

A benefit that a member has already earned from an **occupational pension scheme** when ceasing to be an **active member** before **normal pension age** and which is received on retirement.

PRIMARY PROTECTION

One of two forms of transitional protection (the other is **enhanced protection**) for registering pre **A-Day** rights. When a member's rights registered at A-Day exceed £1.5m, this value replaces (and grows in line with) the **standard lifetime allowance**. This is then known as the individual's **personal lifetime allowance**. Any amounts in excess of this will be subject to a **lifetime allowance charge**.

PRIMARY THRESHOLD

See employee's earnings threshold.

PRINCIPAL CIVIL SERVICE PENSION SCHEME (PCSPS)

The pension scheme available to all civil servants and to employees of organisations meeting the test set in the Superannuation Act 1972.

PCSPS has various sections: Classic, Premium, Nuvos, Partnership.

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** which established the scheme or its successor in business. Also known as **sponsoring employer**.

PRIORITY LIABILITIES

Benefits and other **liabilities** which are given precedence in accordance with the priority rule when a scheme is wound up.

PRIORITY RULE

The provisions contained in the scheme documentation setting out the order of precedence of **liabilities** to be followed if the scheme is wound up.

S73 PA95 introduced an overriding statutory order of priorities for a scheme which is subject to the MFR and starts to wind up after 5 April 1997. This has been overridden by PA2004 with effect from 6 April 2005.

PRIVATE EQUITY

The **equity** financing of unquoted companies at the various stages in the life of a company, from start-up and expansion to management buy-outs (MBOs) or management buy ins (MBIs) of established companies. **Venture capital** is the term which is sometimes used to describe the early stages of private equity investment.

Private equity is invested in exchange for a shareholding in a company and the investors' returns are dependent on the growth and profitability of the business.

Private equity and venture capital may be characterised as being equity investments in unquoted companies with growth potential and must be seen as medium to long term investments with limited liquidity.

PROGRAMME TRADE

Purchase and/or sale of a bundle of securities triggered by a defined market event. Increasingly used as an efficient way of re-organising a portfolio.

PROHIBITION ORDER

An order made by the **Pensions Regulator** under s3 PA95 prohibiting a person from being a trustee of a particular **occupational pension scheme**.

See also disqualification order and suspension order.

PROJECTED UNIT METHOD

An **accrued benefits funding method** in which the **actuarial liability** makes allowance for projected earnings. The **standard contribution rate** is that necessary to cover the cost of all benefits which will accrue in the **control period** following the **valuation date** by reference to earnings projected to the dates on which benefits become payable.

Also known as the projected unit credit method.

See GN26 published by the Institute of Actuaries and the Faculty of Actuaries (and adopted by the Board for Actuarial Standards (BAS) in 2007) for the exact definition.

PROSPECTIVE BENEFITS FUNDING METHOD

A **funding method** in which the **actuarial liability** at the **valuation date** is the **present value** of:

- (a) the benefits for current and **deferred pensioners** and their **dependants**, allowing where appropriate for future increases, and
- (b) the benefits which **active members** will receive in respect of both past and future service, allowing for projected earnings up to their assumed exit dates and, where appropriate, for increases thereafter, less the present value of future contributions payable in respect of current **members** at the **standard contribution rate**.

See GN26 published by the Institute of Actuaries and the Faculty of Actuaries (and adopted by the Board for Actuarial Standards (BAS) in 2007) for the exact definition.

PROSPECTIVE MEMBER

An individual, not currently a **member** of the **pension scheme** of his/her **employer**, who either is entitled to join or will become eligible to join in the future by virtue of continuing in employment with the employer.

Given a wider meaning in the Disclosure Regulations.

PROSPECTIVE SERVICE

The length of potential **pensionable service** of a **member** up to a future date or age.

Used for the calculation of some benefits (often incapacity pensions or spouse's pensions).

PROTECTED LIABILITIES

The cost of securing the **defined benefit scheme** members' benefits at the **Pension Protection Fund compensation levels**, other liabilities not relating to the **pension scheme** members and the estimated expenses of winding up the pension scheme.

See also Pension Protection Fund.

PROTECTED MEMBER (LGPS)

Members of the **LGPS** who will retain the right to retire under the **rule of 85**. Different provisions apply for members in England and Wales to those applying for members in Scotland.

PROTECTED MODIFICATION

A modification which, on taking effect, would or might change the nature of the **subsisting rights** of a **member** or survivor of a member of a scheme from being other than **money purchase** to being money purchase, or replace a non money purchase right with a money purchase right, or which would or might reduce the current rate of a pension being paid under the scheme, or is a modification of a prescribed right.

This term is used in connection with s67 of PA95 (as amended by PA2004) and the modification can only be made if the members give informed consent.

PROTECTED RIGHTS

The benefits paid by a **pension scheme** (including a **personal pension scheme** or **stakeholder pension scheme**) which is contracted out on a **money purchase** basis, which derive mainly from the **contracted out rebates** (including minimum contributions and minimum payments) and associated investment returns. Protected rights are subject to rules on how they can be invested and the type of benefits they must provide.

PROTECTED RIGHTS ANNUITY

The **annuity** purchased from an insurance company to secure **protected rights**.

PRUDENCE

In the context of **scheme specific funding**, **trustees** are required to take a prudent or cautious view of possible events, rather than making optimistic predictions.

PUBLIC SECTOR PENSION SCHEME

This is a **pension scheme** primarily providing benefits for public sector workers, where the rules are set up by law and the benefits are guaranteed by the government.

PURCHASED LIFE ANNUITY (PLA)

An **annuity** purchased privately by an individual. In accordance with s656 ICTA88, instalments of the annuity are subject to tax only on the part representing interest and or investment returns: that portion of the instalments which constitutes the return of capital to the annuitant is not taxed.

PUT OPTION

The right but not the obligation to sell a specific security at a specified price at or within a specified time.

See also option.

QUALIFYING EARNINGS FACTOR

The minimum level of earnings required to earn State Pension for a tax year. Equal to 52 times the weekly **lower earnings limit** for the year.

QUALIFYING INSOLVENCY EVENT

An event which meets the requirements set out in PA2004 legislation establishing the **Pension Protection Fund**.

The relevant statutory provision is s.121 of PA2004 and Regulation 5 of SI 2005(2153) - PPF (Entry Rules) Regulations.

QUALIFYING PERIOD

See waiting period.

QUALIFYING RECOGNISED OVERSEAS PENSION SCHEME (QROPS)

An **overseas pension scheme** that satisfies certain **HMRC** requirements in relation to transfers.

See also the list of Qualifying Recognised Overseas pension scheme (QROPS) on the HMRC website.

QUALIFYING SERVICE

The term defined in s71(7) PSA93 denoting the period of employment to be taken into account to entitle the **member** to **short service benefit**. The current condition is for at least two years' qualifying service.

See also linked qualifying service.

QUALIFYING YEAR

A year in which an individual pays, is treated as paying, or is credited with National Insurance contributions to a minimum level.

QUANTITATIVE INVESTMENT ANALYSIS

A method of assessing investments which relies exclusively upon screening of selected statistical data, as opposed to **fundamental analysis**.

QUOTED INVESTMENTS

Investments that have their prices quoted on a recognised stock exchange.

RATE OF RETURN

The percentage change in the value of an investment over a specified period, taking into account both the income from it and the change in its **market value**. Often expressed as an equivalent annual rate.

Often quoted as time weighted returns or money weighted returns.

See also total return.

RATING AGENCY

An agency that provide credit ratings for issuers of securities and also individual issues of fixed-income securities.

REAL ESTATE INVESTMENT TRUST (REIT)

A publicly quoted security that permits investment in property through a typical **investment trust**. As such, the trust is exempt from corporation tax and capital gains tax and can therefore be seen to be the equivalent of direct investment in property. The REIT share price can move to a premium or discount against the underlying net asset value, as with any **investment trust**.

See pooled investment vehicle.

REAL RATE OF RETURN

The difference between the **rate of return** of an investment and a selected measure of inflation over the same period.

The measure of inflation used should be specified, but for example will often be the index of retail prices.

REBATE

See contracted out rebate.

REBATE ONLY PERSONAL PENSION (ROPP)

An **appropriate scheme** which is funded solely by contracted out rebates payable by **HMRC** to the pension provider.

RECOGNISED OVERSEAS PENSION SCHEME

This is an **overseas pension scheme** recognised by **HMRC** and listed in The pension schemes (Categories of Country and Requirements for Recognised Overseas Schemes and Recognised Overseas pension schemes) Regulations (SI 2006/206).

RECOGNISED TRANSFER

A transfer payment to another **registered pension scheme** or **recognised overseas pension scheme**, in lieu of a member's accrued rights in a registered pension scheme.

RECOVERY PLAN

A plan drawn up by **trustees** setting out how the funding deficit (on the **statutory funding objective**) will be made up, and over what period. This occurs under the **scheme specific funding** requirements, where the scheme's **assets** are less than the **technical provisions** and there is a shortfall (deficit) at the effective date of the **actuarial valuation**,

Making up the deficit will involve additional contributions from the employer which will be shown on the **schedule of contributions**.

REDUCED CASH EQUIVALENT

Reduced cash equivalents may be paid in certain circumstances where the **scheme actuary** has provided a report certifying that a **defined benefit scheme** would have insufficient assets to pay **cash equivalents** in respect of all members, and the **trustees** have instructed that **transfer values** should be reduced as a result.

REFERENCE SCHEME

The reference scheme for **contracting out** purposes, as defined in s12B PSA93.

REFERENCE SCHEME TEST

The test required in order to **contract out** after 5 April 1997 on a **COSR** basis, that the benefits provided by a **COSR** are at least as good as or better than those which would be provided under the **reference scheme**. Confirmation that the **COSR** meet the requirements for contracting out is given in the reference scheme test certificate, which is normally provided by the **scheme actuary**.

REGISTER/REGISTRY

See Pension Schemes Registry.

REGISTERED PENSION SCHEME

A scheme is a registered pension scheme, either by:

- being registered with **HMRC** or
- being an approved pension scheme on 5 April 2006 and thus acquiring registered status automatically.

REGISTERED PENSION SCHEME MANUAL (RPSM)

The detailed guidance that is available from **HMRC** for **employers**, employees, administrators and others on the provisions under the FA2004 and supporting material in respect of the operation of **registered pension schemes**.

The RPSM can be accessed on the HMRC website.

REINSTATEMENT

The acceptance into an **occupational pension scheme** of a **member** who has previously declined to join, or has opted out. Reinstatement can be solely for future **service** benefits or can also include **past service benefits**.

REINSURANCE

The practice whereby one insurer insures with another the **risks** it has accepted in order to offset the impact of part or all of any possible claims.

*Used loosely to describe the insurance taken out by **trustees** to offset the effects of excessive death benefit claims.*

RELATED PARTY TRANSACTIONS

Financial transactions with related parties which **ISA** (UK and Ireland) 550 requires to be disclosed in an entity's financial statements.

PN15 identifies three broad categories: employer related, member related and officers and managers.

*The **pension scheme SORP** identifies the **disclosures** to be made in scheme accounts.*

RELEVANT EARMARKED SCHEME

An **occupational pension scheme**:

- (a) which is a **money purchase scheme** under which all the benefits are secured by one or more contracts of insurance or **annuity** contracts specifically allocated to the provision of benefits to or in respect of individual **members**;
- (b) all the members of which are **trustees**; and
- (c) under the provisions of which decisions to be made by the trustees must be unanimous if any trustees who are not members are disregarded.

Under PA95, such schemes are exempt from the requirement to appoint a **scheme auditor**.

RELEVANT EMPLOYEES

In the context of a **stakeholder pension scheme**, employees who have to be offered access to such a scheme by their **employer**.

REPORTING ACCOUNTANT

An independent accountant who carries out an **assurance engagement** which is not a statutory audit.

RETIREMENT BENEFITS SCHEME

An arrangement for the provision of benefits consisting of or including **relevant benefits**.

The full definition is set out in s611 ICTA88.

RESTORATION ORDER

A restoration order may be made by the **Pensions Regulator** in respect of a transaction involving scheme **assets** (excluding **defined contribution schemes**) if the **employer** has become insolvent or the transaction is one at an undervalue entered into with an individual on or after 27 April 2004. The purpose of such an order is to restore the position to what it would have been had the transaction not been entered into.

RESTRICTED EMPLOYER RELATED INVESTMENT

The restrictions under s40 PA95 and investment regulations on **employer related investment** in occupational pension schemes: principally the upper limit of 5% **self investment** and the prohibition of employer related loans.

RETIREMENT ANNUITY

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 approved under Chapter III Part XIV ICTA88.

REVALUATION

1. The application, particularly to **preserved benefits**, of indexation, **escalation** or the awarding of **discretionary increases**. PSA93 imposes a minimum level of revaluation in the calculation of **GMP** and of preserved benefits other than **GMP**.
2. An accounting term for the revision of the carrying value of an asset, usually having regard to its **market value**.

REVALUED EARNINGS

The index linking of earnings for calculating benefits.

REVALUED EARNINGS SCHEME

A scheme where the benefits are based on **revalued earnings** for a given period. A notable example is **S2P**.

REVERSIONARY ANNUITY

An **annuity** which commences to be paid on the death of a specified person, normally to a spouse or a **dependant**.

RISK

1. The likelihood of a return different from that expected and the possible extent of the difference. *Downside risk is the likelihood of a loss or a return less than expected from an investment.*
2. Also used to indicate the variability of investment returns or the **volatility** of different **assets**.

Investments with greater inherent risk must offer higher returns to attract investors.

RISK APPETITE

A qualitative assessment of the amount of **risk** that an investor is willing to take.

RISK BENEFITS

Benefits payable in the event of death or disability which are not pre funded.

Risk benefits are often insured.

RISK BASED LEVY

The risk based element to the **Pension Protection Fund levy**.

RISK BUDGET

A mathematical assessment of the total amount of **risk** that an investor is prepared to take and the allocation of that risk between the various possible **asset classes**.

RISK-FREE ASSET

An investment with no chance of default, generally considered as one with the backing of a stable government. *For example, a UK government bond (gilt-edged security).*

RISK-FREE RATE

The yield on an investment in a **risk-free asset** with a known or certain **rate of return**.

RISK MANAGEMENT

An important aspect of portfolio management, which involves the use of complex statistical models.

See also active risk.

RISK PREMIUM

The extra yield of an investment over the **risk-free rate** demanded by investors to compensate them for the higher uncertainty of return.

RISK REGISTER

A compilation listing all of the identified **risks** and the results of their analysis and evaluation. Information on the status of the risk and any means by which it can be eliminated or its effects reduced should also be included. The risk register should be regularly updated and reviewed.

RULE OF 85

An **early retirement** rule giving beneficial rights (for example unreduced pension on early retirement) to members whose years of age plus years of service equal at least 85.

RULES

See *scheme rules*.

SAFEGUARDED RIGHTS

The part of a **pension credit** awarded after a **pension share** (following divorce) which is attributable to the member's **contracted out** benefits.

SALARY GRADE SCHEME

A **career average scheme** in which the benefit for each year of **pensionable service** depends on the range into which the **member's** earnings fell during that year. Also known as a **graded scale scheme**.

SALARY RELATED SCHEME

A **scheme** in which benefits are related to earnings. It is a type of **defined benefit scheme**.

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 **pension scheme**.

This is not the same as an AVC.

SCHEDULE 3 ORDERS

Orders issued each year in accordance with Schedule 3 PSA93 specifying the rates of increase to be applied to **preserved benefits** over the period from the date of leaving to **normal pension date**.

Formerly known as section 52A orders.

SCHEDULE OF CONTRIBUTIONS

A schedule specifying the **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 **statutory funding objective** (or, if still applicable, the **MFR**). Required for **defined benefit schemes** subject to s227 PA2004 and The occupational pension schemes (Scheme Funding) Regulations 2005 (SI 2005/3377).

See also contribution rate.

SCHEME ACTUARY

The named **actuary** appointed by the **trustees** or **managers** of an **occupational pension scheme** under s47 PA95.

SCHEME ADMINISTRATOR

See definitions 1 and 2 of administrator.

SCHEME AUDITOR

The **auditor** appointed by the **trustees** or **managers** of an **occupational pension scheme** under s47 PA95 to report on the **financial statements** of the scheme and payment of contributions.

SCHEME BASED LEVY

The scheme based element to the **Pension Protection Fund levy**.

SCHEME CHARGEABLE PAYMENT

See unauthorised payments.

SCHEME FUNDING VALUATION

A valuation to determine whether a **defined benefit scheme** has sufficient and appropriate assets to meet its **technical provisions**.

Under new requirements introduced by PA2004 (which replaces the **minimum funding requirement**), the valuation process consists of a **statement of funding principles, actuarial valuation, schedule of contributions** and, if the scheme's **assets** do not cover the technical provisions, a **recovery plan**. The whole process must be completed within 15 months of the effective date of the valuation.

The relevant statutory provisions are s224 PA2004 and The occupational pension schemes (Scheme Funding) Regulations 2005 (SI 2005/3377).

SCHEME LIABILITIES

Used in **FRS 17** and **IAS 19** to mean the **liabilities** of a **defined benefit scheme** for benefits payable and other outgoings due after the **valuation date**. These are usually in respect of **pensionable service** accrued up to that date.

SCHEME RETURN

A form submitted to the **Pensions Regulator** by schemes containing information that it will use to:

- make sure the information it holds on the register of pension schemes is accurate.
- calculate levies due from pension schemes.
- regulate **pension schemes**.

The information collected is also used by the **Pension Protection Fund**.

Schemes with five or more members must complete an annual scheme return.

SCHEME RULES

The detailed provisions of a **pension scheme**, brought into operation by a **definitive trust deed** or in some other formal way, for example by a **trustees'** resolution.

SCHEME SANCTION CHARGE

Post **A-Day**, the administrator will have to pay a Scheme Sanction Charge if the scheme has made one or more **scheme chargeable payments**.

SCHEME SPECIFIC FUNDING

The scheme funding regime outlined in Part 3 of the Pensions Act 2004, that requires the adoption of a funding target (the **technical provisions**) specific to the circumstances of the scheme.

*See **scheme funding valuation and minimum funding requirement**.*

SCHEME YEAR

The financial year of an **occupational pension scheme** for which the **audited accounts** and the **annual report** are prepared.

The **Disclosure Regulations** permit the scheme year to be between six and eighteen months when the scheme commences or winds up or when the scheme's financial year is changed.

SECONDARY THRESHOLD

*See **employer's earnings threshold**.*

SECTION 9(2B) RIGHTS

Rights to benefits (other than benefits from **AVCs**) under a **COSR** which are attributable to **contracted out** employment after 5 April 1997. Also known as Post '97 COSR Rights, they derive from s9(2B) of PSA93.

*Section 9(2B) rights are all benefits payable under the scheme not just the minimum level of benefits required under the **reference scheme test**.*

SECTION 32 POLICY

Used widely to describe an individual **deferred annuity** policy.

This term came into use as a result of s32 FA81 (now contained in s591 ICTA88), which gave prominence to the possibility of effecting such policies.

SECTION 32A POLICY

An insurance policy securing the **protected rights** of an **active member** or **deferred pensioner** upon the **winding up** of a **COMPS**.

Introduced by PA95.

SECTION 53 SCHEME

An occupational pension scheme which was formerly **contracted out** and by virtue of retaining **GMPs** or **protected rights** remains subject to supervision by **HMRC** under s53 PSA93 (formerly s49 SSPA75).

SECTION 67

The section of PA95 used to prevent a **pension scheme** from being modified if the changes would adversely affect **members'** rights. It was replaced by a new s67 introduced by PA2004 which protects the "modification of pension rights". Schemes are able to amend **subsisting rights** without the members' consent where the actuarial value of the rights as a whole will be maintained. Trustees will be required to approve any proposed modification.

SECTION 75 DEBT

See debt on the employer.

SECTION 109 ORDERS

Orders issued each year in accordance with s109 PSA93 specifying the rates of increase to be applied to post 1988 **GMPs** in payment.

Formerly known as section 37A orders.

SECTION 120 NOTICE

A prescribed notice to the **Pension Protection Fund** required under PA2004 which must be completed by an insolvency practitioner when he or she becomes aware that an insolvent **employer** has sponsored an **occupational pension scheme**.

SECTION 143 VALUATION

An **actuarial valuation** carried out on a prescribed basis, required under PA2004 to determine whether, as at the **assessment date**, the value of the **defined benefit scheme's** assets was less than the amount of its **protected liabilities**.

SECTION 148 ORDERS

Orders issued each year in accordance with s148 Social Security Administration Act 1992 specifying the rates of increase to be applied to the **earnings factors** on which the **additional pension** and **GMPs** are based.

This revaluation is based on the increase in national average earnings. Formerly known as section 21 orders.

SECTION 179 VALUATION

An **actuarial valuation** carried out on a prescribed basis, required under PA2004 to determine, for the purpose of calculating the **risk based levy**, the funding of an eligible **pension scheme**.

SECTION 226 POLICY

See retirement annuity contract.

SECURED PENSION

A pension either underwritten by an insurance company (other than a short-term annuity or income withdrawal) or provided through an **employer** sponsored scheme.

See also alternatively secured pensions.

See Schedule 28 of FA2004.

SEGREGATED FUND

Where the **assets** of a particular fund are managed independently of those of other funds under the fund manager's control.

Compare with pooled investment vehicle.

SELF ADMINISTERED SCHEME

An **occupational pension scheme** which is not an **insured scheme**.

Self administered may appear to refer to the method of administering contributions and benefits; in practice the term has become solely related to the way in which the investments are managed.

SELF INVESTED PERSONAL PENSION (SIPP)

A **personal pension scheme** under which the **member** has more freedom than usual to choose and manage investments. SIPPs are subject to the same investment restrictions as other **registered pension schemes**.

The requirements governing self invested personal pensions are set out in the Personal pension schemes (Restriction on Discretion to Approve) (Permitted Investments) Regulations 2001.

SELF INVESTMENT

The investment of the **assets** of an **occupational pension scheme**, approved under Chapter I, in **employer related investments**.

A 5% limit is imposed on employer related investments by PA95 (with certain exemptions). **HMRC** imposes separate restrictions on self investment by **SSAs**. Requirements as to disclosure and reporting of self investment are laid down by PA95.

SENSITIVITY ANALYSIS

Calculations which show the impact of changing the assumptions used in **actuarial valuations**.

SERVICE ORGANISATION

An organisation which carries out activities on behalf of another organisation.

Pension schemes often use service organisations to perform functions such as investment management and scheme administration.

SETTLEMENT

1. The completion of a purchase or sale of **bonds** or shares. The moment when the cash is delivered to the seller and the stock is delivered to the buyer.
2. Used in **FRS 17** to mean an irrevocable action that relieves the **employer** (or the **defined benefit scheme**) of the primary responsibility for a pension obligation and eliminates significant **risks** relating to the obligation and the **assets** used to effect the settlement.

SERIOUS ILL HEALTH LUMP SUM

The payment of benefits to a member as a lump sum on the grounds of his/her serious ill health. If the payment is within the **lifetime allowance** and certain conditions are met, there will be no charge to tax.

The relevant statutory provision is s166 and Schedule 29 FA2004.

SHAREABLE RIGHTS

Those rights to benefits under a **pension scheme** which are capable of being subject to a **pension sharing order**.

SHORT POSITION

A short position exists when an investor has sold stock that they do not own in anticipation of being able to buy it later at a lower price. In order to do this, the investor first borrows, for a fee, the stock from another investor who does own it. "Going short" means to take a short position.

See also long position.

SHORT SERVICE BENEFIT (SSB)

The benefit which must be provided for an **early leaver** under the **preservation** requirements of PSA93.

SHORT SERVICE REFUND LUMP SUM

The post **A-Day** term for a refund of member contributions on leaving a **registered pension scheme**.

SINGLE PREMIUM METHOD

A method of determining the premiums payable under an insurance contract with the object of meeting each year the cost of the benefit relating to that year.

SMALL SELF ADMINISTERED SCHEME (SSAS)

A self administered **occupational pension scheme** with generally fewer 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 were subject to approval, including the requirement for a pensioner trustee.

The statutory definition is contained in the Retirement Benefits Schemes (Restriction on Discretion to Approve)(Small Self-administered Schemes) Regulations 1991 (SI1991/1614).

SOCIALLY RESPONSIBLE INVESTMENT (SRI)

Investment strategies or restrictions that take account of the social, environmental or other impacts that a company's activities can have on individuals and the environment.

Pension funds are required to disclose in their **Statement of Investment Principles** the extent to which they take these factors into account.

SOFT COMMISSION

An arrangement whereby a broker offers to pay some of a **pension scheme's** or an **investment manager's** costs, for example subscriptions to information **services**, if a certain amount of business is directed to that broker.

SOLVENCY VALUATION

An **actuarial valuation** carried out to assess the **funding level** if the scheme were to be wound up, usually by buying annuities to secure the accrued benefits, in accordance with The occupational pension schemes (Scheme Funding) Regulations 2005.

SPECIAL CONTRIBUTIONS

For accounting purposes this was previously defined in the **Pension Scheme SORP** as any contribution to a **retirement benefits scheme** by an **employer**, which was not an **ordinary annual contribution**. This definition is still that used by **HMRC**.

The 2007 revision of the SORP has replaced it with the terms **employers' augmentation contributions** and **employers' deficit funding contributions**.

SPECIALIST MANAGEMENT

A fund management arrangement whereby there are separate accounts or contracts with one or a variety of managers for specific **asset classes**. Each manager focuses mainly on **stock selection** within the asset class while the **trustees** determine allocations to each asset class and **tactical asset allocation**.

SPONSOR COVENANT

See employer covenant.

SPONSORING EMPLOYER

See principal employer.

STAKEHOLDER PENSION SCHEME

A money purchase scheme that satisfies the **CAT Standards** and is recognised by **HMRC** as a stakeholder pension scheme.

*Since October 2001 employers who do not come within one of the employer exemptions, such as offering membership of an **occupational pension scheme**, must offer their relevant employees access to a stakeholder pension scheme.*

STANDARD CONTRIBUTION RATE

The contribution rate (**employer** and employee) appropriate to a particular **funding method** before taking into account any **actuarial surplus or deficiency**. It is normally expressed as a percentage of **pensionable earnings**.

STANDARD LIFETIME ALLOWANCE

This creates a ceiling on the tax advantaged benefits value that can be built up by an individual in all schemes.

See lifetime allowance.

STATE EARNINGS RELATED PENSION SCHEME (SERPS)

The **additional pension** provisions of the state pension scheme, replaced by **State Second Pension** since 6 April 2002. SERPS is based on earnings on which standard rate National Insurance contributions have been paid.

STATE PENSION AGE (SPA)

The minimum age from which state retirement pensions are normally payable.

Also referred to as State Pensionable Age. PA95 raised the SPA for women to 65, to bring it in line with men. This is being phased in over a ten year period between 2010 and 2020. There are further proposals to increase SPA from 65 to 68 between 2024 and 2046.

STATE PENSION DISREGARD

See state pension offset.

STATE PENSION DEFERRAL

Choosing not to claim State Pension at **SPA**, in return for extra pension or a lump sum when State Pension begins to be paid.

STATE PENSION FORECAST

A forecast of State Pension based on National Insurance Contributions to date, and projected future contributions. Provided for individuals by the **Pension Service**.

STATE PENSION OFFSET

The reduction of the **pensionable earnings** or a member's pension to take account of the amount of **SERPS** or the **state second pension** that the member will receive.

STATE SCHEME PREMIUM

A payment made to **HMRC** in certain circumstances to reinstate all or part of an individual's **SERPS** benefits.

Most state scheme premiums were abolished by PA95 from 6 April 1997.

STATE SECOND PENSION (S2P)

The state pension scheme introduced with effect from 6 April 2002 that reformed **SERPS**. Employees participate automatically in State Second Pension, unless they are **contracted out**. The State Second Pension is based upon earnings on which standard rate Class 1 National Insurance contributions are paid, treated as paid or credited.

STATEMENT OF AUDITING STANDARDS (SAS)

Issued by the **Auditing Practices Board**, **SASs** contain basic principles and essential procedures (Auditing Standards), with which auditors are required to comply in the conduct of any audit of financial statements.

STATEMENT OF FUNDING PRINCIPLES

A written statement that sets out for a **defined benefit scheme** the **trustees'** policy for meeting the **statutory funding objective**. It must generally be agreed between the trustees and the **employer**, the trustees having first sought advice from the **scheme actuary**.

See also scheme funding valuation.

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.

See s35 PA95.

STATEMENT OF RECOMMENDED PRACTICE (SORP)

Recommendations on best accounting practice for specialised industries or sectors. They supplement accounting standards and other legal and regulatory requirements pertaining to that industry. They are issued by the industry or sector body recognised for that purpose by the **Accounting Standards Board**.

See also Pension Scheme SORP.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES (STRGL)

One of the four primary statements in company **financial statements**, together with the profit and loss account, **balance sheet** and cash flow statement. The statement shows the components as well as the total of recognised gains and losses, where these have been earned but not realised. Where a gain is both earned and realised it will be disclosed in the profit and loss account.

Under **FRS 17** and **IAS 19**, **actuarial gains and losses** are disclosed in the **STRGL** and not in the profit and loss account.

STATUTORY DISCHARGE

The discharge provided in respect of a **member** who exercises the statutory right to a **cash equivalent** under s99 PSA93.

STATUTORY FUNDING OBJECTIVE (SFO)

A requirement under PA2004 for a **defined benefit scheme** to have sufficient and appropriate assets to cover its **technical provisions** or a **recovery plan** for reaching that position.

See also scheme funding valuation.

STATUTORY MONEY PURCHASE ILLUSTRATIONS (SMPIs)

An annual statement setting out the value of a member's pension at today's value, which must be issued to members of a **money purchase scheme**.

STATUTORY SCHEME

A scheme (usually in the public sector) established by Act of Parliament.

STOCHASTIC VALUATION

A valuation or other actuarial calculation based on many simulations of the future, generated by a computer using a mathematical model with random elements. The purpose is to help the **trustees**, **scheme actuary** and **employer** to assess the likely range of outcomes

See also deterministic valuation

STOCK LENDING

The process by which stock is released to a third party in return for collateral and a fee for so doing.

This is normally undertaken on a short term basis.

STOCK SELECTION

The continuous process of selecting which stocks are to be included in a portfolio.

SUB CUSTODIAN

Appointed by a **custodian** to fulfil contractual requirements the custodian has with his client; for example to handle overseas stock where the custodian appointed has no local presence.

SUBSISTING RIGHTS

In relation to a **member** means:

- Any right which at that time has accrued to or in respect of the member to future benefits under the **scheme rules**, determined as if they had opted, immediately before that time, to terminate their **pensionable service**, and
- Any entitlement to the present payment of a pension or other benefit which they have at that time, under the scheme rules.

In relation to a surviving dependant it means any entitlement to benefits, or right to future benefits, which they have at that time under the scheme rules in respect of the member. It is effectively **accrued rights**.

This term is used in connection with **Section 67** of PA95 (as amended by PA2004).

SUMMARY FUNDING STATEMENT

A summary of the scheme's funding position. It must be issued to all scheme **members** and **beneficiaries** (annually except for small schemes) and is their primary source of information on funding matters. Its content is prescribed by regulations.

SUMMARY OF CONTRIBUTIONS

A statement, certified by the **trustees** of a pension scheme and contained within the **Annual Report**, which is a summary of the contributions payable to a **pension scheme** in the period covered by the annual report.

The summary analyses the contributions into two categories: those payable under the **schedule of contributions** or **payment schedule** and those other contributions payable in the period.

See also Auditors' Statement about Contributions.

SURPLUS

See actuarial surplus.

SURRENDER

The cancellation of an insurance policy by the payment of a "surrender value".

SUSPENSION ORDER

An order made by the **Pensions Regulator** under s4 PA95 suspending a person from exercising any functions as a **trustee** of any **occupational pension scheme** to which the order applies.

See also disqualification order and prohibition order.

SWAP

A type of **derivative** where two parties agree to exchange **assets** or cashflows over an agreed period. Swaps can be based on equity indices, bonds of different maturities, baskets of securities, individual securities, or interest rates.

As with other derivatives, swaps can be used to gain a desired exposure without trading in the underlying assets. Swap based strategies are offered by some investment banks as potential solutions for reducing pension schemes' **risk** relative to their **liabilities**.

SWAP OVERLAY

The addition of a swap contract to an investment portfolio designed to adjust the risk and return characteristics of the underlying **assets**. For example, a swap contract may be added to a bond portfolio so that the combination matches fund **liabilities** more closely.

TACTICAL ASSET ALLOCATION (TAA)

Short term deviations from the long term **asset allocation strategy** to reflect a manager's views on markets.

TARGETED MONEY PURCHASE SCHEME

A **money purchase scheme** where there is a stated intention, but not a promise, to provide a particular level of benefit.

TAX RELIEF AT SOURCE

See pension tax relief at source.

TECHNICAL PROVISIONS

The amount required to make provision for a **defined benefit scheme's** accrued or past service **liabilities**. The technical provisions are calculated as part of an **actuarial valuation** by the **scheme actuary**, who certifies that they have been calculated in accordance with the **statutory funding objective** requirements.

See also certificate of technical provisions.

TERM ASSURANCE POLICY

A policy which only provides a lump sum on death before a specified date.

Sometimes referred to as a term insurance policy.

TERMINATION BENEFITS

Used in **IAS 19** to mean employee benefits payable as a result of either:

- 1) an entity's decision to terminate an employee's employment before the **normal retirement date**; or
- 2) an employee's decision to accept voluntary redundancy in exchange for those benefits.

THE PENSIONS SERVICE

Part of the Department for Work and Pensions (DWP). Responsible for administering and paying the state pension.

TIME WEIGHTED RETURN

A relative measure of the **rate of return** earned by the **assets** in a fund, independent of the timing of cash flows into or out of the fund. This is the normal measure used for inter-fund performance comparisons.

To be contrasted with money weighted return.

TOTAL EARNINGS SCHEME

A type of **career average scheme** where the pension is a specified fraction of the **member's** aggregate earnings throughout the period of membership.

TOTAL RETURN

A combination of capital change and investment income, either gross or net of fees. To be precise, the aggregate increase (or decrease) in the value of the portfolio resulting from the net appreciation (or depreciation) of the principal of the fund, plus the net income during the period. This is expressed as a percentage of the value of the fund at the start of the period.

THE PENSIONS ADVISORY SERVICE (TPAS)

An independent voluntary organisation that is grant aided by the Department for Work and Pensions (DWP). TPAS provides information and guidance to members of the public covering State, company, personal and stakeholder schemes. Also helps members of the public with problems, complaints or disputes with their occupational or private pension arrangements.

TRANSFER CLUB

A group of employers and **occupational pension schemes** that have agreed to a common basis for **transfer payments**.

TRANSFER PAYMENT

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

*The transfer payment may be made in accordance with the **scheme rules** or in exercise of a member's statutory rights under PSA93.*

*See also **cash equivalent**.*

TRANSFER VALUE (TV)

The amount of the **transfer payment**.

TRANSITION MANAGER

A manager whose specific role is to control the transfer of **assets** between **investment managers/custodians** whilst minimising direct and indirect costs.

TRACKER FUND

A fund which seeks to match investment performance to a particular stock market index.

*See also **indexation of investments**.*

TRANSITIONAL PROTECTION

The facility to preserve certain rights accrued pre **A-Day**.

*See **primary protection and enhanced protection**.*

TRIGGER POINTS

Situations in relation to technical provisions or a **recovery plan** that may concern the **Pensions Regulator**.

The initial trigger points were set as:

- The technical provisions not falling between the **liabilities** under **FRS17 - retirement benefits** and the liabilities under the **S179 valuation** and / or
- A **recovery period** of more than 10 years.

TRIVIAL COMMUTATION LUMP SUM

A tax free lump sum benefit that may be paid to an individual (who has reached the age of 60 but has not reached age 75) where the total value of rights from all **registered pension schemes** is less than 1% of the **lifetime allowance**. Payment is subject to certain conditions.

The relevant statutory provision is s166 and Schedule 29 FA2004.

TRUE AND FAIR VIEW

Published accounts of companies and certain other bodies are required to show a true and fair view. This is usually achieved by complying with the relevant accounting standards, but professional judgment is also required.

*According to the **Audited Accounts Regulations** and the **Pension Scheme SORP**, the accounts of an **occupational pension scheme** should present a true and fair view.*

TRUST

A legal concept where by **assets** are 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 CORPORATION

A company empowered under the Public Trustee Act 1906 to act as **custodian trustee** and which is expected to provide professional expertise in managing **trusts**.

*See also **corporate trustee**.*

TRUST DEED

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

*See also **interim trust deed and definitive trust deed**.*

TRUST INSTRUMENT

A **trust deed** or other document or series of documents, by which a trust is created and the provisions governing the trust are prescribed.

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.

TRUSTEE DIRECTOR

A director of a trustee company.

TRUSTEES' KNOWLEDGE AND UNDERSTANDING (TKU)

A requirement under PA2004 that trustees of an **occupational pension scheme** must have appropriate knowledge and understanding of the law relating to pensions and trusts, the principles relating to the funding of **occupational pension schemes** and the investment of **assets**.

The relevant statutory provisions are s247-249 PA2004.

TRUSTEES REPORT

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

TRUSTEE TOOLKIT

An online learning system (www.trusteetoolkit.com) developed by the **Pensions Regulator** to help **trustees** meet the requirements for **trustee knowledge and understanding** in relation to **occupational pension schemes**.

UNAUTHORISED EMPLOYER PAYMENT

A payment made by a **registered pension scheme** to an **employer** that is not an **authorised employer payment** under the FA2004 or is treated by **HMRC** as such a payment.

UNAUTHORISED MEMBER PAYMENT

A payment made by a registered pension scheme to a member that is not an **authorised member payment** under the FA2004 or is treated by **HMRC** as such a payment.

UNAUTHORISED PAYMENT

Any **unauthorised member payment** or **unauthorised employer payment**.

See also authorised payment charge, authorised member payment and authorised employer payment.

UNAUTHORISED PAYMENTS CHARGE

A tax charge that arises when a **registered pension scheme** makes an **unauthorised payment**.

The relevant statutory provision is s208 FA2004.

UNAUTHORISED PAYMENTS SURCHARGE

A tax charge which arises when a **registered pension scheme** makes total **unauthorised payments** that exceed a set limit in a specified period of not more than twelve months.

The relevant statutory provision is s209 FA2004.

UNCRYSTALLISED FUNDS

Funds held in respect of a member that have not been used to provide that member with a benefit. In the case of a cash balance arrangement it is the funds that would be available if the member decided to draw the benefits.

UNDERFUNDING

Where a pension arrangement has **assets** less than those required to meet its **liabilities**.

See actuarial deficiency.

UNDERWRITING

1. The analysis of the risk inherent in providing an insurance policy. It involves an investigation of the circumstances surrounding the subject to be insured. The policy may be written on special terms or insurance may be refused, if the risk is deemed to be higher than average.
2. The practice by which flotations of shares on the stock exchange are sometimes underwritten by financial institutions. They agree to purchase the shares, at a pre-determined price, if the shares are not all sold on the market, receiving a fee for doing so.

UNDESIGNATED ASSETS

Under the **pension scheme SORP**, those **assets** of an **occupational pension scheme** providing **defined contribution** benefits which have not been specifically allocated for the provision of benefits to or in respect of named **members**.

Where **assets** are held on a pooled basis by the investment manager and the administrator keeps records of their allocation to members, such investments are designated **assets**.

UNFUNDED UNAPPROVED RETIREMENT BENEFITS SCHEME (UURBS)

A unfunded occupational pension scheme, not designed to be a registered pension scheme.

See also employer financed retirement benefits scheme and unfunded scheme.

UNFUNDED SCHEME

A scheme where **assets** are not accumulated in advance of the benefits being paid.

See also pay as you go.

UNIFORM ACCRUAL

The treatment of retirement benefits as being earned equally over the period of potential **service** to **normal pension age**, especially for the purposes of the **preservation** requirements of PSA93.

UNISEX ANNUITY

Annuity rates that are the same for men and women.

UNISTATUS ANNUITY RATES

Annuity rates which are the same irrespective of gender, marital status and the existence of **dependants**.

UNIT LINKED POLICY

An insurance policy under which premiums paid by the policyholder purchase units. The price of the units fluctuates according to the value of the underlying investments.

UNITISED FUND

A pooled fund which has been divided into units.

UNITISED WITH PROFITS

A **with profits policy** under which premiums paid by policyholders purchase units. The value of the policy may be increased by the addition of bonuses or bonus units.

See also unit linked policy.

UNQUOTED INVESTMENTS

Investments which are dealt in the market but are not subject to any listing requirements and are given no official status.

UNREGISTERED PENSION SCHEME

A retirement benefits scheme that is not a **registered pension scheme**.

UNSECURED PENSION

An arrangement whereby, at retirement, a **member** of a **money purchase scheme** may defer purchase of an **annuity** and reinvest the **assets** of their fund. An income can be drawn if desired. The arrangement can continue until age 75 (subject to conditions).

See also alternatively secured pension.

UPPER BAND EARNINGS

Earnings between the **lower earnings limit** (LEL) and **upper earnings limit** (UEL).

UPPER EARNINGS LIMIT (UEL)

The maximum amount of earnings on which NI contributions are payable by employees at the main rate. Currently approximately equal to seven times the **primary threshold**. There is no UEL for employers' contributions. This is the maximum level of earnings on which **State Second Pension** can be earned.

VALUATION BALANCE SHEET

A comparison of the **actuarial value of assets** with the **actuarial liability** showing the elements of these amounts in the form of a **balance sheet**, with an amount for **actuarial surplus** or **actuarial deficiency** as a balancing item.

The results of an actuarial valuation may be presented in other ways.

VALUATION BASIS

Commonly used by **actuaries** to mean the **funding method** and/or **actuarial assumptions**.

VALUATION DATE

The effective date of the **actuarial valuation**.

VALUATION METHOD

See **funding method**.

VALUATION SUMMARY

A summary of an **actuarial valuation** that must be sent to the **Pensions Regulator**, together with the **recovery plan**.

VENTURE CAPITAL

The term used to describe a subset of **private equity**, covering the seed to expansion stages of investment.

VESTED RIGHTS

The benefits to which a member is already entitled.

VOLATILITY

The frequency and magnitude of price changes of **assets**.

WAITING PERIOD

A period of service specified in the **scheme rules** which an employee must serve before being entitled to join an **occupational pension scheme** or to receive a particular benefit.

*In some schemes the waiting period before being entitled to join may automatically count as **pensionable service**. Not to be confused with **qualifying service**.*

WHISTLE BLOWING

The statutory duty imposed on **trustees**, **scheme administrators**, employers and professional advisers under s70 PA2004 (also referred to as "Reporting breaches of the law"). A report must be made in writing to the **Pensions Regulator**, as soon as reasonably practicable, of any breach of legislation relating to the scheme's administration which could be materially significant to the exercise of any of the Pensions Regulator's functions.

WIDOW'S/WIDOWER'S GUARANTEED MINIMUM PENSION (WGMP)

The minimum pension which a salary related **occupational pension scheme** must provide for the surviving spouse or civil partner of a member in respect of **contracted out** contributions paid between April 1978 and April 1997, as one of the conditions of **contracting out**.

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 (s74 PA95).

There are statutory provisions to determine when winding up commences for statutory purposes. For schemes which commenced wind-up before 6 April 2005 see Regulation 2, the occupational pension schemes (Winding Up) Regulations 1996 (SI 1996/3126), or wind up after 6 April 2005 see The Occupational Pension Schemes (Winding up etc) Regulations 2005 (SI 2005/706).

*See also **priority rule**.*

