

Glossary of Terms

Administration

1.The day-to-day running of a pension scheme, eg collection of contributions, payment of benefits, record-keeping.

2.The position in which an insolvent company may find itself if an administrator has been appointed by a court for the purpose of administering the payment of debts by the company.

An administrator is likely to be appointed where there is a realistic chance of selling a company as a going concern.

Annual Allowance

limit to the total amount of contributions that can be paid to defined contribution pension schemes and the total amount of benefits that you can build up in defined benefit pension scheme each year.

Annuity

A series of payments, which may be subject to increases, made at stated intervals until the end of the agreed period or the life of the annuitant. This is often achieved by means of an insurance policy underpinned by guarantees.

Approved scheme

The term used until recently by HMRC to describe those schemes meeting the requirements which entitle them to the tax privileges associated with pension funding. Now known as registered schemes.

Beneficiary

A member of a pension scheme who is entitled to a benefit from the scheme or a dependant who will become entitled on the death of the member.

Benefit schedule

A schedule prepared by the administrators listing all scheme members (including dependants in receipt of benefits), and the benefits to which they are entitled. Usually drawn up when the administration is changing hands (eg when a scheme is being transferred to the PPF).

Benefits

Any payments made to a beneficiary, including tax-free lump sums, pension payments and death benefits.

Benefits statement

A statement or estimate of benefits payable in respect of an individual's membership of a pension scheme, e.g. annually during employment, on retirement, in the event of wind up.

Cancellation Notice

This document provides you with an option to cancel within 30 days of the commencement of benefits.

Capped Drawdown

Mechanism for the withdrawal of retirement income from an approved money purchase pension arrangement in order to defer the eventual purchase of an annuity. Now largely replaced by unsecured pension arrangements introduced by tax changes with effect from April 2006 (usually Self-Invested Pension Plans: 'SIPPs').

Carry Forward

Allows you to contribute more than the current years annual allowance amount into your pension and still receive tax relief by using unused annual allowance from the previous 3 years.

Contributions

Money paid into your pension fund, these can be personal (made by yourself), employer (made by your employer) or third party (made by any other person).

Crystallised Funds

These are funds that have been allocated to provide a retirement benefit (see also uncrystallised funds)

Death in service (DIS)

Death which occurs while a member of a pension scheme is still employed by the sponsoring employer. Benefits may be payable to dependants.

Deferred annuity

An insurance policy which guarantees a series of payments, which may be subject to increases and which will start at retirement. The payments are made regularly until the death of the policy holder. The policy can be set up to provide benefits for dependants after the death of the policy holder.

Deferred member

A member entitled to a deferred pension (sometimes known as 'preserved benefits').

See also: deferred pension.

Deferred pension

A benefit relating to the past service of members of an occupational pension scheme who are no longer active members but have not yet retired. The benefits are payable at retirement or earlier death.

Defined Benefit scheme.

A scheme in which the benefits are defined in the scheme rules and accrue independently of the contributions payable and investment returns. Most commonly, the benefits are related to members' earnings when leaving the scheme or retiring, and the length of pensionable service.

Also known as 'final salary' or 'salary-related' scheme.

Defined contribution scheme.

A scheme in which a member's benefits are determined by the value of the pension fund at retirement. The fund, in turn, is determined by the contributions paid into it in respect of that member, and any investment returns.

Also known as 'money purchase' scheme.

Dependant

A person who is financially dependent on a member or pensioner or was so at the time of death or retirement of the member or pensioner. Scheme rules will define a dependant precisely, e.g. age at which children cease to be dependants.

Direct Debit

An arrangement made between a bank and a third party that allows the third party to transfer money from a person's account on agreed dates.

Dividend

A distribution of profits made by a company to its shareholders, usually half-yearly. The company usually has total discretion as to the size of the dividend and even whether or not to pay a dividend.

Effective date

The date at which the liabilities and assets of the scheme are measured for the purposes of a valuation

Enhanced Protection

A form of HMRC protection if you applied for this you would not pay tax on benefits in excess of the lifetime allowance provided your benefits at retirement do not exceed the value of your benefits at 5 April 2006.

Expression of wish

A means by which a member can indicate to the trustees a preference as to the recipient of any lump sum death benefit.

Flexi-Access

This is a retirement benefit option that allows you to take any amount from your pension pot at any time after age 55 and have it paid directly to you.

Flexible Drawdown

This is a retirement benefit option that allows you to take an income of any amount of your choosing, to be paid directly to you.

Financial adviser

Advises individual members about the options that are best for them and how they should organise their investments.

Financial Conduct Authority (FCA)

On 1 April 2013 the Financial Services Authority (FSA) split into two regulatory bodies - the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA).

The FCA is responsible for regulating the standards of conduct in retail and wholesale, financial markets and for supervising the infrastructure that supports those markets. The FCA also has responsibility for the prudential regulation of firms that are not regulated by the PRA.

Financial Ombudsman Service

An independent service to settle disputes between consumers and financial service providers.

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See also: Financial Conduct Authority.

Financial Service Compensation Scheme (FSCS)

This is the independent UK's statutory compensation scheme for customers of authorised financial services firms.

Fixed Protection

A form of HMRC protection that allow's you to crystallise benefits worth up to £1.5 million without paying the lifetime allowance charge, although the ability to accrue future benefits is very limited.

FSAVC – Free Standing Additional Voluntary Contribution Scheme

These are pensions that allow members of workplace pension schemes to pay extra contributions to build up additional benefits. They are usually provided by Insurance companies

Fully insured scheme

Where the benefits to which each member is entitled under the scheme rules are secured exclusively by an insurance company taken out by the trustees.

Fund manager

An individual (or company) to whom the trustees delegate the management of all or part of the scheme's assets.

Also known as investment manager.

Gilt Yields

Income provided from Bonds issued by the British government.

GAD – Government Actuaries Department

A department of the Government responsible for providing actuarial advice

GMP - Guaranteed minimum pension

The minimum pension which an occupational pension scheme must provide as one of the conditions of contracting out of SERPS for service before 6 April 1997 (unless it was a DC scheme contracted out through the provision of protected rights).

Group personal pension

An arrangement made for the employees of a particular employer, to participate in personal pension schemes with the same pension provider. Each member has a separate pension policy (contract) with the pension provider, although contributions are collected by the employer who then pays them to the provider.

Because of the contractual arrangements, a group personal pension scheme is referred to as a contract-based scheme, rather than a trust-based scheme, and there is no board of trustees.

High Net Worth Individual

A personal who is deemed to be suitable to weigh the risks and merits of an investment opportunity due to their overall wealth, generally quoted in terms of liquid assets over a certain figure.

HMRC - HM Revenue & Customs

Formed in April 2005, following the merger of Inland Revenue and HM Customs and Excise Departments, HMRC determines the tax environment within which pension schemes operate.

Independent trustee

An individual or company which performs the duties of the trustee but has no other direct or indirect involvement with the pension scheme or its advisers, the sponsoring employer or the members.

The regulator may appoint an independent trustee to an occupational pension scheme, where an insolvency practitioner has been appointed to the employer.

Individual Protection 2014

A form of HMRC protection which will give you a protected LTA equal to the value of your pension savings on 5 April 2014 subject to an overall maximum of £1.5million.

In-specie

Transfer the ownership of an asset from one pension to another in its current form, i.e. without the need to convert the asset to cash.

Investment portfolio

A collection of assets owned by a particular person, people or organisation, eg a trustee board.

Key Features Document

This document details the features of the scheme, including your obligations and the scheme's obligations, you must read the key features before making the decision to start a SIPP.

Key Features Illustration

A document that shows the monetary features of the options you have chosen to take. E.g. how much your tax free amount will be, how the chosen benefits will impact on your fund in the future.

Letter of appointment

A letter officially appointing an adviser to the trustees

Lifetime Allowance

The limit on the value of pay outs from your pension schemes, whether lump sums or income, that can be paid out without triggering an extra tax charge.

Lifetime Allowance Certificate

This document confirms to you the amount of the Lifetime Allowance you have used through taking benefits.

Lump sum

A sum of money that members can choose to take at retirement. It is currently paid free of tax. If this option is chosen the member then receives a reduced pension.

See also: tax-free lump sum.

Member

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

Pensions administration

The day-to-day running of the scheme, including the collection and allocation of contributions, the routine calculation of the benefits of individual members on retirement, in deferment, on death or ill-health. It also includes the maintenance of accurate and up-to-date member records and the management of operational risks.

Administration is sometimes performed internally by employees of the sponsoring employer, sometimes contracted-out to a third party administrator, and sometimes carried out by the pension provider, in the case of fully insured schemes.

Pensioner

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

Pensions in payment

Pensions that are currently being paid.

Pensions Ombudsman

Deals with:

Disputes about entitlement and complaints of maladministration from individual members of occupational pension schemes

Disputes between trustees of occupational pension schemes and employers

Disputes between trustees of different occupational pension schemes

Pensions Regulator

Regulates work-based pension schemes in the UK.

Primary Protection

This is a form of protection offered by HMRC , it allows an individual lifetime allowance based on how much your benefits at 5 April 2006 exceeded the value of the 2006/2007 standard lifetime allowance.

Professional clients

Defined as having a good understanding of their own goals and requirements, and a good knowledge of financial theory. There will be many boards of trustees who categorise themselves as professional clients. They will not be in need of the extra protection given to non-professional clients.

Section 32 Buy out Plan

It is a pension transfer plan scheme where a company pension scheme is transferred to a scheme in the name of the individual member by the trustees of the employer's pension scheme. It is a company scheme transfer plan.

Sophisticated Investor

A type of investor who is deemed to have sufficient investing experience and knowledge to weigh the risks and merits of an investment opportunity.

SSAS – Small Self Administered Scheme

An occupational pension scheme set up under trust with fewer than 12 members.

Standard Asset

An investment that falls under the FCA's list of Standard Asset investments, investments in this list are regulated by the FCA and fall within the remit of the Financial Service Compensation Scheme.

Stockbroker

A professional who buys and sells securities on a stock exchange on behalf of clients

Tax-free lump sum

A sum of money available to pension scheme members at retirement in exchange for a reduction in pension payments. It is currently paid free of tax.

Transfer value

The amount of money which a scheme will pay to another pension arrangement in lieu of benefits which have accrued to a member. Sometimes referred to as a CETV (cash equivalent transfer value).

UFPLS – Uncrystallised Funds Pension Lump Sum

A lump sum paid directly from uncrystallised funds. 25% is usually tax free with the remainder taxed as income. UFPLS will also include payments from money purchase arrangements which would currently be termed as trivial commutation lump sum payments.

Uncrystallised Funds

Funds/benefits that have been built up in pensions and have not yet been used to provide a retirement benefit. (See also crystallised funds)

Unsecured pension arrangement

An arrangement which allows a DC scheme member of retirement age to defer the purchase of an annuity and instead invest the fund in assets of his choice. The member may or may not draw down an income, subject to certain limits.

This arrangement can usually only be maintained up to the age of 75.

Winding up

The process of closing down an occupational pension scheme. In the case of a DB scheme this is usually achieved by applying the assets to the purchase of insurance policies (annuities) for the beneficiaries, or by transferring the assets and liabilities to another pension scheme, in accordance with the scheme documentation or statute.

In the case of a DC scheme wind up is usually achieved by transferring members' funds to a new pension arrangement.

Winding up lump sum

The conversion of a pension which is below a prescribed level, into a cash sum (commutation), payable where a scheme is winding up.