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Institute

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A PMI AND PRAG PUBLICATION

**PRAG**

# Pensions *Terminology*

A USEFUL GUIDE TO PENSION  
TERMS AND KEYWORDS

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# Foreword

*Since the last edition of Pensions Terminology, we have seen fundamental changes within the pensions industry, and this is reflected in the wealth of new terms included in this booklet.*

The introduction of automatic enrolment has been followed by the freedom and choice reforms, the introduction of master trusts, defined benefit consolidation and the UK's first attempt to implement a collective defined contribution scheme. New concepts inevitably require new terminology to describe them.

This ninth edition of Pensions Terminology continues the collaboration between the Pensions Research Accountants Group (PRAG) and the Pensions Management Institute (PMI) in identifying those terms which might be familiar to established industry professionals but unfamiliar to those unacquainted with the vast array of technical detail associated with pension provision. A dedicated team representing both PRAG and the PMI has created this updated version of Pensions Terminology, to reflect today's pensions industry. The booklet is designed to help you find your way through the maze of Pensions Terminology.

We are sure that the next few years will continue to see further change within the pensions industry, and all of us, whether experienced industry professionals or those just starting a career in pensions, will continue to need to learn the rich and diverse terminology that our industry creates.

**Shona Harvie, Chair, Pensions Research Accountants Group (PRAG)**

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# Notes on using the glossary

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## **Actuarial Methods**

The Institute and Faculty of Actuaries has 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	<i>Companies Act</i>
FA	<i>Finance Act</i>
ICTA	<i>Income and Corporation Taxes Act</i>
PA	<i>Pensions Act</i>
PSA	<i>Pension Schemes Act</i>
SI	<i>Statutory Instrument</i>
SSA	<i>Social Security Act</i>
s	<i>Section (of an Act)</i>

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.

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## **A Day**

6 April 2006, the date the **FA2004** pensions tax regime came into force.

## **AAF 01/06**

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.

## **Abandonment**

Where the **sponsoring employer** severs its link with a **defined benefit scheme** without providing it with enough funds or assets to compensate for losing the ongoing support of its **employer**.

*The Pensions Regulator has issued guidance on the subject for the **trustees of defined benefit schemes**.*

## **Absolute Return**

An investment strategy that aims to achieve a given level of long-term return rather than a return relative to a specific **benchmark**.

## **Accounting Bases**

The methods developed for applying fundamental accounting concepts, by way of **accounting policies**, 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 **statement of net assets**.

## **Accounting Policies**

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

*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 a cash basis is used.*

## **Accounting Standards**

Standards that guide the preparation and presentation of **financial statements**. **Accounting standards** are developed and issued by the **Financial Reporting Council**.

## **Accounts**

*See **financial statements**.*

# 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 a **cash basis**.*



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## **Accrual Rate**

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

## **Accrued Benefits**

The **benefits** for service up to a given point in time, whether vested rights or not. They may be calculated in relation to current earnings or projected earnings.

*Allowance may also be made for **reevaluation** and/or **pension increases** required by the **scheme rules** or legislation.*

## **Accrued Rights**

The **benefits** to which a **member** is entitled, as of right, under an **occupational pension scheme**. These include **accrued benefits**. An **active member's accrued rights** can be based on **benefits** at date of leaving service or may include a right for **benefits** to retain a link to future salaries.

The term is given various specific definitions in **PSA1993** for the purposes of **preservation**, **contracting-out** and the **Disclosure Regulations**. It is also given a specific meaning in **PA1995**, for example 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 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).

*Contrast with **passive 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.*

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## **Actuarial Assumptions**

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

## **Actuarial Certificate**

A certificate given by an **actuary** arising out of actuarial work. Common actuarial certificates relate to:

- **Schedule of contributions**
- **Automatic enrolment**
- **Section 75 debt**
- **PPF deficit reduction contributions**
- **Section 67 (modification of accrued rights)**
- **Bulk transfers without consent**

## **Actuarial Early Retirement Reduction**

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

## **Actuarial Equivalence**

A test of actuarial value which compares **benefits** immediately before and after a modification of **benefits**. For the test to be satisfied the total value of the **member's subsisting rights** immediately after the modification must be no less than the value of those rights immediately before the modification.

*This term is used in connection with **section 67** of **PA1995**.*

## **Actuarial Gains And Losses**

Used in **FRS 102** and **IAS 19** to mean changes in an actuarial **surplus** or **deficit** that arise because:

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

## **Actuarial Report**

A written actuarial report (funding update) prepared and signed by the **scheme actuary** on the developments affecting the scheme's **technical provisions** since the last **actuarial valuation** or report was prepared.

*Required by the **Occupational Pension Schemes (Scheme Funding) Regulations 2005 (SI 2005/3377)**.*

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## 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 (**future service contribution rate** and **deficit contributions**), based on the agreed valuation method and **actuarial assumptions**.

*Under PA2004, actuarial valuation refers specifically to a written report, prepared and signed by the **scheme actuary**, valuing the scheme's assets and calculating its **technical provisions**. This is generally issued triennially.*

*See also **Actuarial Report**.*

## Actuaries' Code

A statement published by the Institute and Faculty of Actuaries, in relatively simple terms, of the standards an **actuary** can be expected to observe when serving the public and clients (including their employer).

## Actuary

A professional adviser on financial questions involving probabilities relating to mortality and other contingencies. In the UK, this usually means a member of the Institute and Faculty of Actuaries.

*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** commonly referred to as **S2P** (or **State Earnings Related Pension Scheme** before 6 April 2002).

*Abolished with the introduction of the **Single Tier State Pension** from April 2016.*

## Additional Voluntary Contributions (AVCs)

Contributions over and above a **member's normal contributions** which the **member** elects to pay to an **occupational pension scheme** in order to secure additional **benefits**.

*See also **Free Standing AVCs (FSAVCs)**.*

## Adjusted Income

A **member's adjusted income** is their **threshold income** plus the value of their total pension contributions to a **defined contribution scheme** and total pensions accrual in a **defined benefit scheme** in each tax year. Broadly this is all a **member's taxable**

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income plus the value of pension savings (but less the amount of **member** contributions in a **defined benefit scheme**). The **Annual Allowance** is reduced for high earners whose **threshold income** and **adjusted income** for the tax year exceed £110,000 and £150,000 respectively.

If **adjusted income** exceeds £150,000, there is a £1 tapered reduction in the **Annual Allowance** for every £2 of **adjusted income** above £150,000. The maximum reduction to the **Annual Allowance** is £30,000, so those **members** with an **adjusted income** of £210,000 and above have an **Annual Allowance** of £10,000.

## **Administrator**

- The person or persons notified to **HMRC** as being responsible for the management of a **pension scheme**.
- A person or body responsible for the day to day management of a **pension scheme**. They may or may not be the **scheme administrator**.
- A type of **insolvency practitioner** in relation to companies under the **Insolvency Act 1986**.

See section 270 part 4 of **FA2004**.

## **Admitted Body**

An organisation that chooses to be admitted to the Local Government **Pension Scheme (LGPS)** in order to provide access to the scheme for some or all of its employees.

## **Advisers**

Individuals or companies appointed by the **trustees** to give advice. The **trustees** are legally required to appoint certain **advisers**, e.g. legal and investment advisers.

## **Age Discrimination**

The unlawful discrimination by **employers** and **trustees** or managers of a **pension scheme** 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 provision is the **Equality Act 2010**. This incorporates the previous **Employment Equality (Age) Regulations 2006 (SI 2006/1031)** as amended by the **Employment Equality (Age) (Amendment No.2) Regulations 2006 (SI 2006/2931)**.*

## **AIFMD**

**Alternative Investment Fund Managers Directive**, European regulation applicable to **alternative investment** funds which may be marketed to institutional and other sophisticated investors. Hence AIF (alternative investment fund) and AIFM (alternative investment fund manager).

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## **Allocated Assets**

Investments held by **defined contribution schemes** may be held on a pooled basis by the **investment manager** such that the **investment manager** cannot identify the investments by **member**. The **administrator** keeps records of the allocation of investments by **member**, and the investments are allocated to **members**.

*The SORP recommends that the **financial statements** should explain that **defined contribution** assets are allocated to provide **benefits** to individuals for whom they were paid, and disclose investments allocated, not allocated, designated and not designated to **members**.*

*See also **designated assets**.*

## **Alpha ( $\alpha$ )**

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

## **Alternative Investments**

Investments other than the mainstream asset classes of **equities** and **bonds**. Alternatives include **hedge funds**, **private equity** and commodities.

## **Alternative Annual Allowance**

The alternative annual allowance is the standard **Annual Allowance** minus the **Money Purchase Annual Allowance (MPAA)**. If **defined contribution**

savings exceed the **MPAA** (£4,000 from 6 April 2017) the excess is subject to the **Annual Allowance charge** as is the excess of any **defined benefits** savings over £36,000 from 6 April 2017. This latter figure is referred to in the legislation as the **alternative annual allowance**.

*Where the **Money Purchase Annual Allowance (MPAA)** limit is exceeded, the **alternative annual allowance** will apply.*

## **Amendment Power**

The provision in a **pension scheme's trust deed** and **scheme rules** that sets out which parties have the power to amend the **trust deed** and **scheme rules** and how the amendment will be evidenced (for example by **deed of amendment** or by resolution). The **amendment power** will also set out any restrictions on how the power can be exercised. It is very important to follow the provisions of the **pension scheme's amendment power** to ensure that the amendment is valid.

*There are additional requirements in legislation. In particular see **section 67**.*

## **Amortisation**

The practice of reducing the value of assets to reflect their reduced worth over time. In the context of accounting for pension schemes it refers to the spreading of an actuarial **surplus** or actuarial **deficit** over an appropriate period.

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## ***Annual Allowance***

From 6 April 2006 an amount which limits the tax relief that may be obtained on pension contributions in each year.

*See section 228 FA2004.*

## ***Annual Allowance Charge***

The **Annual Allowance charge** is a tax charge on the **member** of one or more **registered pension schemes** and arises when the **member's total pension input amount** exceeds the amount of the **Annual Allowance** for that tax year, unless the member has sufficient unused **Annual Allowance** from the three previous tax years that they can **carry forward**.

*The charge is levied on the excess at a variable rate that reflects the full marginal rate of tax relief received. This is referred to in the FA2011 amendments to FA2004 as the **appropriate rate**.*

*See also Schedule 17 part 1 section 3 of FA2011.*

## ***Annual Governance Statement***

*See chair's statement.*

## ***Annual Report***

The objective of an **annual report** is to provide information relevant to those participating in and managing the scheme, such as existing and prospective **members, trustees and participating employers**, and to external parties involved with the scheme, such as **HMRC, The Pensions Regulator** and the **Pension Protection Fund**.

It will contain 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. It will also include a **trustees' report**, the **auditor's report**, the **auditor's statement** about contributions and appropriate actuarial information.

**Trustees** may publish a simplified summary report, the contents of which may vary significantly depending on the scheme and its circumstances.

## ***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 a **compulsory purchase annuity**, a **deferred annuity**, a **purchased life annuity** and a **reversionary annuity**.*

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## **Annuity Certain**

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

## **Anti-Avoidance Regime**

The regime introduced by the **PA2004** granting extensive powers to **TPR** in order to enable it to carry out its statutory objectives, in particular its objectives to protect the **benefits** in respect of **members of occupational pension schemes** and to reduce the risk of situations arising which may lead to compensation being payable from the **Pension Protection Fund**. The main measures available to **TPR** under the regime are **contribution notices** and **financial support directions**. These powers are also referred to as **moral hazard provisions**.

*See sections 38 to 51 of the **PA2004**.*

## **Anti-Franking Requirements**

Anti-franking legislation requires that statutory **indexation** of an individual's **Guaranteed Minimum Pension (GMP)** 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 part IV section 87 **PSA1993** and part II Schedule 5 section 56 **Child Support, Pensions and Social Security Act 2000**.*

## **Applicable Amount**

This represents 25% of the capital value of the **benefits** coming into payment under the relevant **arrangements** under the scheme generating the **lump sum**, but ignoring any disqualifying **pension credit** held and, where a **defined contribution scheme** is involved, ignoring any **drawdown pension** that has already been designated.

## **Appointed Day (A Day)**

*See **A Day**.*

## **Appropriate Additions**

The amounts to be added when calculating the minimum **benefits** 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 Rate**

A variable rate that reflects the full marginal rate of tax relief received by the **member** when an **Annual Allowance charge** is levied.

This is referred to in the **FA2011** amendments to **FA2004**. See Schedule 17 part 1 section 3 of **FA2011**.

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## ***Approved Scheme***

A term that applied before 6 April 2006 to describe a **retirement benefits scheme** which was approved under chapter I part XIV ICTA1988, including a **free standing AVC scheme**. The term was also used to describe a **personal pension scheme** or **occupational pension scheme** approved under chapter IV of that part.

The equivalent term from 6 April 2006 is **registered pension scheme**.

## ***Approved Withdrawal Arrangement***

A **withdrawal arrangement** that is approved by TPR.

*See regulation 7 of the Occupational Pension Schemes (Employer Debt) Regulations 2005.*

## ***Arrangement***

A contractual or **trust**-based arrangement made by or on behalf of a **member** of a **pension scheme** under that scheme. A **member** may have more than one **arrangement** under a scheme.

## ***Article 157***

Article 157 of the Treaty of the Functioning of the European Union (originally Article 119, then Article 141 of the Treaty of Rome), providing that men and women are entitled to equal pay for equal work.

*See also Barber judgment.*

## ***Articles Of Association***

The legal document that governs a **pooled fund** established as a **limited company** (for example, an OEIC).

*Also known as an Instrument of Incorporation.*

## ***ASC 715***

**ASC 715** is the US Financial Accounting Standards Board's Accounting Standards Codification statement which deals with accounting for pension costs in employers' accounts.

## ***ASC 820***

The US Financial Accounting Standards Board's statement which deals with accounting for measurements in a **fair value hierarchy**.

## ***Assessment Date***

The date of the **employer's** insolvency and the date on which the **assessment period** for entry to the **Pension Protection Fund** starts.

## ***Assessment Period***

The period starting on the **assessment date** during which the **Pension Protection Fund** works with the **trustees** to assess whether it will assume responsibility for the scheme.

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## **Asset Allocation**

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 cash flow 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.*

*See also **liability-driven investment (LDI)**.*

## **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 level** and **contribution rates**.

## **Asset-Backed Pension Contribution (ABC)**

An arrangement allowing a non-cash business asset to be used by an **employer** to underpin regular cash **contributions** to a **pension scheme**.

*This typically takes the form of a **special purpose vehicle** which collateralises the **promised payment stream** allowing it to be recognised as a **scheme asset**.*

## **Asset Class**

A collective term for investments of a similar type.

*Asset classes include **equities, bonds, cash and property**.*

## **Associated Employers**

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

## **Associated Employments**

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

*The relevant statutory provision is section 24 of the **Income Tax (Earnings and Pensions) Act 2003**.*

## **Assurance Engagements**

Engagements which provide an independent and professional conclusion or opinion on the area reviewed. A financial statement audit is a type of **assurance engagement**.

*Examples of other assurance engagements relevant to **pension schemes** are engagements under an assurance standard for reporting on controls of service organisations (see **AAF 01/06**).*

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## ***Assurance Reports On Internal Controls Made Available To Third Parties***

Reports prepared by **reporting accountants** giving their opinion on the design and effectiveness of the internal controls of a service organisation, as described by the management of that organisation and made available to third parties (usually the organisation's customers and the customers' auditors) in compliance with the guidance in AAF 01/06.

## ***Attained Age Method***

A funding method based on prospective **benefits** (rather than **accrued benefits**) in which the calculation of **liabilities** makes allowance for projected earnings. The **future service contribution rate** calculated for future service is that necessary to cover the cost of all expected **benefits** which will accrue to existing **members** after the valuation date by reference to projected earnings throughout their future working lifetimes.

## ***Attribution Analysis***

An analysis of 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.

## ***Audit***

An **audit** provides assurance over the validity of the **financial statements** and the **auditor** provides an **auditor's report** containing their **audit opinion**. For certain types of **occupational pension scheme**, the **auditor** is required by the **Audited Accounts Regulations** to provide a **statement about contributions** in which is given their opinion whether **contributions** have been paid in accordance with the **schedule of contributions** or **payment schedule**.

## ***Audit Opinion***

That part of an **auditor's report** in which the **auditor** expresses an opinion on whether the **financial statements** show a **true and fair view** of the transactions during the period and the position at the year end of the entity, have been properly prepared in accordance with applicable **accounting standards** and contain the information required by the **Audited Accounts Regulations**.

## ***Audited Accounts***

The **financial statements** of an **occupational pension scheme**, which include a report given by an **auditor** on the account information presented therein (the **auditor's report**)

*Also referred to as audited financial statements.*

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## **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 section 41 **PA1995** and The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) (Amendment) Regulations 2016 (SI 2016 / 229) which deal with the requirement of **trustees** to obtain **audited accounts** and a statement from the **auditor** about **contributions** under the scheme.

*The regulations set out the information to be included in the accounts and the form and content of the **auditor's** statement about **contributions**.*

## **Auditing Practices Board (APB)**

The **APB** is responsible for the development of auditing practice in the United Kingdom and Republic of Ireland through the development and issue of standards of auditing. It is a part of the **Financial Reporting Council**.

*The **APB** may also issue bulletins to provide **auditors** with timely guidance on a new or emerging issue; they are **persuasive** rather than **prescriptive**. They indicate good practice, even though they may be developed without the full process of consultation and exposure used for **APB Auditing Standards**.*

*See also **Auditing Standards and International Standards on Auditing**.*

## **Auditing Standards**

The **International Standards on Auditing** (UK) (ISAs (UK)) which are effective for audits of financial statements for periods commencing on or after 17 June 2016 (unless otherwise stated).

## **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**, which is signed in the name of an individual or the firm.

*See also **independent auditor, scheme auditor and statutory auditor**.*

## **Auditor's 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 a number of matters, including whether the scheme **financial statements** show a **true and fair view** and contain the information required by those Regulations, as well as reporting on whether the information contained in the **annual report** has any misstatements or material inconsistencies with the **financial statements** (as required by ISA (UK) 720).

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## **Auditor's Statement About Contributions**

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

*If the auditor's statement about contributions is negative or qualified, a statement of the reasons should be provided. **Practice Note 15** recommends that the statement be made separately from the **auditor's report** on the **financial statements** of the scheme.*

## **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**.

## **Augmentation Cost**

The additional cost to improve the **benefits** for specified **members** under a scheme's **augmentation** rule.

*A special contribution may need to be made by the employer to meet the cost.*

## **Authorised Contractual Scheme**

A UK vehicle which can be used as the structure for a **pooled fund**, as an alternative to a **limited company** or **unit trust**.

## **Authorised Employer Payments**

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.

*See sections 175–180 **FA2004**.*

## **Authorised Member Payments**

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.

*See sections 164–171 **FA2004**.*

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## **Automatic Enrolment**

The requirement for an **employer** to enrol automatically **eligible jobholders** into a **qualifying scheme**. An individual who is automatically enrolled is free to **opt out** and can stop saving at any time, but needs to take action to do so.

*These requirements came into force over a period of four years from October 2012. The timing depended on the size of the employer.*

See **PA2008** and related regulations. See also **staging date**.

## **Automatic Enrolment Certification**

Formal confirmation by the **employer** or **scheme actuary** that the scheme meets the quality requirements necessary to be a **qualifying scheme**.

## **Automatic Re-Enrolment**

If any **jobholder** has **opted out** of a **pension scheme**, an **employer** will have to automatically re-enrol them provided they are still working for the **employer**.

*The re-enrolment process occurs about every three years.*

See also **automatic enrolment**.

## **Available Portion**

This is an amount equal to 25% of the **member's Lifetime Allowance** available at that time, and is calculated on the basis that the **member** is entitled only to the **standard Lifetime Allowance**, but where the **member's** entitlement to the **lump sum** arose after 5 April 2014 and the member has **Primary Protection** or valid **Enhanced Protection** at that time and the **standard Lifetime Allowance** is less than £1.5 million, use £1.5 million in the calculation instead.

## **Average Earnings Scheme**

See **career average scheme**.

# Bb

## ***Balance Of Powers***

The allocation of obligations and responsibilities between a scheme's **trustees** and **employers** under the scheme's **definitive trust deed**.

## ***Balance Sheet***

A **financial statement** which is prepared to summarise the assets and **liabilities** of an entity at a particular date in time and which is designed to give a **true and fair view** of its financial position.

*In **pension scheme financial statements**, a **statement of net assets (available for benefits)** is required rather than a **balance sheet**. This is because a **pension scheme** is not required to take account of the **liabilities to pay benefits** after the date of the statement, which instead is dealt with in the **actuarial valuation** and **report on actuarial liabilities**.*

## ***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 157**.

## ***Barber Window***

The period between the **Barber judgment** in the European Court (17 May 1990) and the date on which the scheme complied or is due to comply with the ruling that scheme **benefits** should be equalised between men and women.

## ***Bare Trustee***

A person acting as a **trustee** for:

- an individual absolutely entitled as against the **trustee**;
- two or more individuals who are so entitled;
- an individual who would be so entitled but for being a minor or otherwise lacking legal capacity; or
- two or more individuals who would be so entitled but for all or any of them being a minor or otherwise lacking legal capacity.

*See **FA2004** as amended by **FA2015 (No. 2)**.*

# Bb

## **Basic Amount**

- A term used by HMRC when considering the **Lifetime Allowance charge** calculation. In this context, it is the amount that actually crystallises through a **Benefit Crystallisation Event (BCE)** over and above the **member's** available **Lifetime Allowance**.
- The amount on which a **member** will still qualify for tax relief in a tax year even though they do not have **relevant UK earnings**. The amount is £3,600 or such greater amount as the Treasury may by order specify.

See section 190 **FA2004**.

## **Basic State Pension (BSP)**

The flat rate (not earnings related) State Pension paid to all who have met the minimum NI contribution requirements.

*From April 2016, state scheme provision was replaced by the **Single Tier State Pension**.*

## **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, which 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 not old age, survivors' 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. A **benchmark** may be customised or industry standard.

See also **performance measurement**.

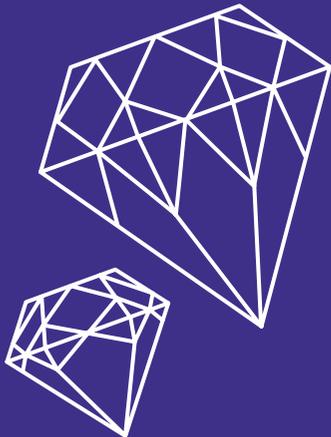
## **Beneficial Owner**

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 the **benefits** 'crystallising' at that point against the **member's** available **Lifetime Allowance**.

*There are ten such events; for example, commencement of a pension, payment of a **lump sum** in connection with that pension, payment of lump sum death **benefit** or a pension transfer payment.*

# Bb

## **Benefit Statement**

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

## **Benefits**

The payments made by a **pension scheme** to a scheme **member**, usually on their retirement, to which that **member** is entitled. The term is most usually applied to the money paid to a **member** as their pension, but may also include other entitlements.

Benefit expenditure is one of the major categories of expenditure which the Pension Schemes' **SORP** recommends be disclosed separately on the face of the Fund Account.

*Payments to scheme **beneficiaries** may take different forms depending on the scheme rules and the circumstances of the scheme during the accounting period. Benefits may be paid as **lump sums** (e.g. on pension commencement or on death); or may be regular periodic pension payments; and they may derive from **beneficiaries'** normal entitlements or derive from additional contributions. The **SORP** provides further detail on how to account for and disclose benefit expenditure.*

## **Benefits In Kind**

**Benefits in kind** are **benefits** which employees or directors receive from their employment but are not included in their salary or wages.

*They are sometimes called 'perks' or 'fringe **benefits**'. They include things like company cars, private medical insurance paid for by the employer and cheap or free loans.*

*Also known as **P11D benefits**.*

## **Best Estimate**

An assumption or valuation measure set such that there is an equal chance that actual experience will be better than or worse than the assumption or measure predicts.

## **Beta ( $\beta$ )**

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

## **Bid-Offer Spread**

The difference between the price at which financial securities and units in a **pooled fund** can be sold (bid price) and bought (offer price).

# Bb

## **Board For Actuarial Standards (BAS)**

An operating body of the **FRC** which contributes to the **FRC's** fundamental aim of supporting investor, market and public confidence in the financial and governance stewardship of listed and other entities by setting high quality actuarial standards.

*The BAS issues **Technical Actuarial Standards**.*

## **Board Of The Pension Protection Fund (PPF)**

The corporate body created by section 107 of **PA2004** to manage the **Pension Protection Fund** and the **Fraud Compensation Fund**. The Board was appointed as the **FAS Scheme Manager** from July 2009.

## **Bond**

A certificate of debt issued by a company, government or other institution.

## **Book Cost**

The total purchase cost at which investments were acquired.

## **Book Value**

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

## **Box Profits**

Trading profits based on the difference between the two prices of a dual-priced fund.

## **Bridging Pension**

An additional pension paid by an **occupational pension scheme** between retirement and **State Pension Age**. It is usually replaced, in whole or in part, by the **State Pension** payable from **State Pension Age**.

*Provision is made for a **scheme pension** to be reduced by the amount of the **bridging pension** being paid where that does not exceed an amount prescribed by regulations.*

## **Bulk Transfer**

The transfer of a group of **members** from one **occupational pension scheme** to another, sometimes with an **enhanced transfer value** in comparison with an individual's **cash equivalent transfer value**. **HMRC** must be informed of any such **transfer payments**.

*Also known as **group transfers**.*

# Bb

## **Buy Back**

The purchase by a company of its own shares.

## **Buy In**

The purchase by the **trustees** of an **occupational pension scheme** of an insurance policy or policies that match some part of **members' accrued benefits**. Policies are purchased in the name of the **trustees** and so remain an asset of the scheme.

*The purchase of such policies may be made for investment, administrative or risk management reasons. A premium is paid and in return the scheme receives an income stream to cover payment of some or all of the **benefits**. The policy is held in the **trustees'** name and remains an asset of the scheme. The scheme usually continues to deal with the payment and administration of **benefits**.*

## **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 **benefits** from the scheme and means that the policy is not an asset of the scheme.

*Commonly used in relation to the transfer of all or part of the **liabilities** of a scheme to an insurance company and often associated with the **winding up** of that scheme.*



## **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 (revised in 2007 and December 2013).*

## **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.

## **Cancellation Notice**

A notice terminating a contract for a **personal pension scheme**, which must be served within a specified period of the commencement of the contract in accordance with the cancellation rules set out in chapter 15 of the **FCA's** Conduct of Business Sourcebook.

*By exercising a right to cancel the consumer withdraws from the contract and the contract is terminated.*

## **Capital Adequacy**

When used in the context of authorised **DC master trusts**, **capital adequacy** refers to the conditions that the **trustees** have to meet to evidence sufficient financial resources to operate the **scheme**. In particular, the **trustees** must have earmarked financial reserves to cover the costs of winding the scheme up, if a wind up was required in the future. Evidencing **capital adequacy** is a requirement of **The Pensions Regulator's DC Master Trust Authorisation** assessment.

## **Capital Call**

A demand from a **private equity** fund for investors to provide a portion of their capital commitment.

*Also called a drawdown request.*

## **Capital Commitment**

The amount of capital which investors agree to provide over the lifetime of a **private equity** fund.

## **Career Average Revalued Earnings Scheme (CARE)**

A **career average scheme** which is revalued by reference to an appropriate index to allow for inflation between the date earnings were received and the date on which **benefits** become payable.

# Cc

## Career Average Scheme

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

*An alternative term for **average earnings scheme**.*

## Carry Forward

Carry forward of unused **Annual Allowance** was introduced with effect from 6 April 2011. **Members** can carry forward any **Annual Allowance** that they have not used in the previous three tax years to the current tax year. This amount of unused **Annual Allowance** can then be added to the current year's **Annual Allowance**. This will give them a higher amount of available **Annual Allowance** to offset against that year's **pension input amount**. To carry forward unused **Annual Allowance** from a previous year, the member must have been a **member** of a **registered pension scheme** at some point in the earlier tax year.

*See **FA2004** as amended by **FA2011**.*

## Carrying Value

An accounting measure of value, which is based on the original cost of the asset less any depreciation, **amortisation** or impairment costs made against the asset. This may differ from the asset's **market value**.

*See also **book value**.*

## Cash Balance Arrangement

A **defined benefit scheme** in which a guaranteed cash sum is built up for each **member** on the basis of a known formula and which is directly related to that **member'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 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**.

*In **pension scheme** accounting, the cash basis is used when accounting for individual transfers in and out of the scheme.*

## Cash Benefit Scheme

An **occupational pension scheme** under which the **benefits** payable to the **member** at retirement are provided in **lump sum** form. From 6 April 2006, **benefits** on this basis can only be paid as a **stand-alone lump sum**.

# Cc

## **Cash Equivalent Transfer Value (CETV)**

The value which a **member** of a **pension scheme** may require to be paid as a **transfer payment** to another **registered pension scheme**.

*See reduced cash equivalent transfer value.*

## **Cashflow Driven Funding Method**

Where a **pension scheme** invests in income generating assets expected to deliver cash flows that closely match its **liabilities**, typically credit and bond-like assets plus **LDI**, and the **valuation discount rate** is set based on the implied yield on those assets (less a margin for defaults).

*Such a **funding** and investment strategy is typically considered by mature well-funded **defined benefit pension schemes** and is similar to the approach adopted by insurance funds. The intention is to provide a stable **funding level** while achieving a higher investment return than investment purely in gilts, swaps or **LDI** assets.*

## **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 is still alive.

## **Certified Amount**

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

# Chair's Statement



An annual governance statement that is required under regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996. The statement must be prepared by the **trustees** or managers of a **pension scheme** which provides **money purchase benefits** and must be signed by the chair of **trustees** within seven months of the scheme year end.

# Cc

## **Chargeable Amount**

- The amount that crystallises for **Lifetime Allowance** at a **benefit crystallisation event** that is not covered by a **member's** available **Lifetime Allowance** at that time, plus any 'scheme-funded tax payment'. The **chargeable amount** is the amount on which the **Lifetime Allowance charge** arises.
- The total of the **defined contribution pension input amount** and any **defined benefit pension input amount** is tested against the available **Annual Allowance**. Any excess total **pension input amount** is referred to as the **chargeable amount** and is subject to the **Annual Allowance charge**.

*The available **Annual Allowance** is the **Annual Allowance** available for the tax year concerned allowing for any available unused **Annual Allowance** carried forward from previous tax years. Where the **Money Purchase Annual Allowance (MPAA)** applies a comparison test is required to determine whether the member is liable to the **Annual Allowance charge** because of the application of the **MPAA**.*

## **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.

## **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 USA. 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 confirmation from **The Pensions Regulator** that it will not seek to exercise its **moral hazard** powers under **PA2004** in relation to a proposed transaction.

## **Closed-Ended Fund**

A **pooled fund** which has been established for a fixed term.

*Investors cannot generally withdraw their investment during the life of the fund.*

*Contrast **open-ended fund**.*

# Cc

## 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 to existing **members**.

## CMI Projections

Future mortality improvement predictions produced by the Continuous Mortality Investigation (CMI), a group set up by the Institute and Faculty of Actuaries to carry out research into mortality.

*The CMI typically updates its mortality projections annually. The model blends recent mortality improvements with long-term rates.*

## Codes Of Practice

The **Pensions Regulator** issues various codes of practice providing practical guidance on compliance with the requirements of legislation. 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.

## Collateral

- Commonly a borrower's pledge of specific property / assets to a lender to secure repayments of a loan.
- Used as part of a credit enhancement technique to mitigate credit risk associated with **derivative** transactions conducted under an **ISDA Agreement**.

*The difference in the present value of the two sides of a **derivative** transaction is calculated frequently (typically daily) and the value is posted by the **counterparty** with the lower valued position. This pledged **collateral** secures a transaction and can be claimed by the solvent **counterparty** if the other **counterparty** defaults.*

## Combined Discrimination

A concept introduced by the **Equality Act 2010** whereby a person is treated less favourably because of a combination of two protected characteristics ("dual discrimination"). The protected characteristics which may be combined are age, disability, gender reassignment, race, religion or belief, sex and sexual orientation.

*The relevant statutory provision is section 14 **Equality Act 2010**.*

## Combined Pension Forecast

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

## Commitment Period

The period of time during which the manager of a **private equity** fund may issue **capital calls** and require investors to make capital contributions to the fund.

*Also called the **investment period**.*



## Common Data

Data items specified in **The Pensions Regulator's** record-keeping guidance as **common data**.

*Common data consists of National Insurance number, surname and either forename or initials, sex, date of birth, date pensionable service started/policy start date or first contribution date, expected retirement date/maturity date (target retirement date), membership status, last status event and address including postcode.*

*See also **scheme-specific data (conditional data)**.*

## Common Investment Fund (CIF)

An arrangement whereby assets of two or more **occupational pension schemes** are joined together for the purpose of making investments.

*This is different to a **pooled fund**.*

## Commutation

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

*Legislation may restrict the amount that can be commuted without incurring tax charges.*

*See also **cash option**.*

## Commutation Factors

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

## Compulsory Purchase Annuity (CPA)

An **annuity** purchased on retirement for a **member** of a **registered 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 **PA1995**.*

## Concurrency

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

*After **A Day**, membership of more than one **pension scheme** is allowed, subject to the **Annual Allowance** and the **Lifetime Allowance**.*

*See also **concurrent employments**.*

# Cc

## **Concurrent Employments**

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

## **Conditional Data**

*See scheme-specific data.*

## **Conflict Of Interest**

Where a person has two or more diverging duties or responsibilities.

*For example, a **trustee** might face a conflict if he/she is also the finance director of the **principal employer** and the **trustees** and **principal employer** are negotiating scheme **funding**. The **trustee** would owe duties to act for the purposes of the scheme and (generally speaking) in the best interests of **members** while also owing a duty to the **employer** to negotiate the best deal for the **employer**.*

*TPR has issued regulatory guidance on conflicts of interest and, more recently, additional guidance in the context of its **21st Century Trusteeship** programme.*

## **Connected Persons**

Connected persons are defined in section 993 of **Income Tax Act 2007** and include spouses or civil partners, relatives, spouses or civil partners of relatives, relatives of spouses or civil partners, **trustees** of a **member's** or a **connected person's** settlement, business partners and companies controlled by the **member** either alone or with another **connected person**.

*Mainly used for SSAS and SIPP.*

## **Consumer Prices Index (CPI)**

The UK Government's principal measure of domestic price inflation in the UK. It is an internationally comparable measure of inflation which employs methodologies and structures that follow international legislation and guidance.

*The **CPI** is published by the Office for National Statistics. It measures the average change from month to month in the prices of goods and services purchased by most households in the UK.*

## **Contingent Annuity**

An **annuity** payable to a person, if alive, on the death of another (usually a spouse or **dependant**).

# Cc

## Contingent Asset

An 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.

*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** when they are in the **PPF's** standard format. 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** of the **pensionable employment** of a **member** as continuous with a previous period of **pensionable employment** within the same scheme or another scheme.

## Contracting-Out

The use of a **pension scheme** which meets certain conditions to provide **benefits** – **Guaranteed Minimum Pensions (GMPs)**, **protected rights** or **section 9(2B) rights** in place of **State Second Pension (S2P)** or its predecessor, **State Earnings Related Pension Scheme (SERPS)**. Employees and the **sponsoring employers** of contracted out **occupational pension schemes** paid reduced rate National Insurance contributions.

The conditions for **contracting-out** are set out in **PSA1993**.

***Contracting-out** on the **defined contribution** basis was abolished from 6 April 2012 and **contracting-out** on the **defined benefit** basis was abolished with the introduction of the **Single Tier State Pension** from 6 April 2016.*

## Contribution

Money paid into a **pension scheme** by **employers** or **members**. Depending on the rules of the scheme and its circumstances during the accounting period, a **scheme** may receive **contributions** from **sponsoring employers** and from **active members**; and they may be regular contributions to cover the current cost of providing scheme **benefits** or they may be deficit reduction contributions. The **SORP** provides further detail on how to account for and disclose **contribution** income.

# Cc

## **Contribution Charge**

A charge deducted from contributions made to an investment such as a **defined contribution** pension arrangement. It may be expressed as a flat cash amount or as a set percentage of the **contribution** paid.

## **Contribution Holiday**

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

## **Contribution Notice**

A notice issued by **The Pensions Regulator** to a person (company or individual), “connected with” or “an associate of” the **employer**, stating that the person is under a liability to pay the sum given in that notice.

The Regulator can issue a notice under:

- the **material detriment test** with effect from 14 April 2008 i.e. **The Pensions Regulator** is of the opinion that an act or failure to act has detrimentally affected in a material way the likelihood of accrued scheme **benefits** being received; or
- the **main purpose test** with effect from 27 April 2004 i.e. the person was a party to an act or failure to act, the main purpose of which was to prevent recovery of the **debt on the employer** or to prevent such a debt becoming due or to reduce the amount of such a debt which was or would otherwise become due. Bad faith is required for pre-14 April 2008 acts.

*With both tests, **The Pensions Regulator** must also consider it reasonable to impose the notice on that person.*

*The relevant statutory provisions are section 38 and section 38A of **PA2004**.*

*The definitions of “connected” and “associated” person for this purpose are set out in section 249 and section 435 respectively of the **Insolvency Act 1986**.*

*See also **moral hazard provisions**.*

## **Contribution Schedule**

See **schedule of contributions**.

## **Contributions Equivalent Premium**

A payment made to **HMRC** to reinstate a **member** into **S2P**. Subject to exceptions, the power to pay **Contributions Equivalent Premiums** ceased on 6 April 2019.

## **Contributory Scheme**

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



## **Control Period**

This is the period of time from the valuation date that is considered when calculating the **future service contribution rate** for schemes still open to accrual. The **control period** is commonly set to cover the next year, the 3-year period to the next valuation or the expected future working lifetime of the active membership.

## **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 (satellite) portfolios.

## **Corporate Bonds**

**Bonds** issued by companies.

*In practice this means all **bonds** other than those issued by governments in their own currency.*

## **Corporate Governance**

The conduct by which a company is directed and controlled by its management.

*Most often deemed to be for the benefit of its stakeholders. See also UK Corporate Governance Code.*

## **Corporate Trustee**

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

*See also **trust corporation**.*

## **Corridor**

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.

## **Cost Of A Defined Benefit Plan**

Pensions are deferred pay. On the matching principle, the cost to an entity of providing goods or services in any accounting period should include the cost of providing the pension **benefits** earned by employees during that same period, as well as salaries, wages and other employment benefits.

*Relevant accounting standards (**FRS 102** and **IAS 19**) define the cost of a **defined benefit plan** for any accounting period as being the net difference between the **defined benefit asset / liability** at the start and at the end of the accounting period.*

# Cc

## **Counterparty**

The other party in a financial transaction, being either the buyer or the seller. If the other party is the buyer, the counterparty is the seller, and vice versa. In many circumstances, the counterparty in a financial transaction is unknown.

## **Counterparty Risk**

The risk which arises in a financial transaction that one party to the transaction will default on its obligations to the other party.

## **Coupon**

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

## **Court Of Justice Of The European Union (CJEU)**

Formerly known as the European Court of Justice, which hears cases and preliminary references under European Community law.

## **Credit Spread**

The difference in yield between a government **bond** and a corporate **bond**.

## **Credit Support Annex**

That part of an **ISDA Agreement** which defines the amount, frequency, thresholds and type of **collateral** exchanged between **counterparties** on **derivative** contracts.

## **Crystallisation**

**Crystallisation** is the process by which a **member** obtains access to their **benefits**.

## **Current Assets**

**Current assets** consist of cash and other assets which are expected to be turned into cash within the normal accounting cycle for the entity (i.e. usually within 12 months of the accounting date).

## **Current Liabilities**

**Current liabilities** consist of debts and other obligations to third parties which are expected to be paid out of cash within the normal accounting cycle for the entity (i.e. usually within 12 months of the accounting date).

## **Current Service Cost**

Used in **FRS 102** and **IAS 19** to mean the increase in **present value** of the **scheme liabilities** which are expected to arise from **members'** service in the current period.

# Cc

## **Currency Overlay**

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

## **Currency Risk**

The risk of investing in any securities not denominated in the investor's own base currency.

*The risk arises due to the volatility of foreign exchange rates.*

## **Current Unit Method**

An **accrued benefits funding method** in which the calculated **liability** is based on earnings at the valuation date (rather than on projected earnings as in the **projected unit method**). The **future service contribution rate** is that necessary to cover the cost of **benefits** which will accrue during a specified period following the valuation date (generally a year), by reference to earnings projected to the end of that period and **revaluation** defined in the **scheme rules** thereafter.

## **Curtailment**

Used in **FRS 102** 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.

## **Custodian**

A financial institution that 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**, **sub-custodian** and **custody agreement**.*

## **Custody**

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

## **Custody Agreement**

The contract between a **custodian** and the **trustees** setting out the terms on which the assets will be held.

# Dd

## **Data Controller**

A person who determines the purpose and manner in which personal information is to be processed. It may refer to an individual or an organisation and the processing may be carried out jointly or in common with other people.

*Defined in the **DPA2018**. The EU General Data Protection Regulation defines this as the natural or legal person, public authority, agency or other body which, alone or jointly with others, determines the purposes and means of the processing of personal data.*

## **Data Processor**

A person other than an employee of the **data controller** who processes personal information on behalf of the **data controller**. In this context, processing means obtaining, recording or holding data or carrying out any operation or set of operations on that data.

*Defined in the **DPA2018**. The EU General Data Protection Regulation defines this as a natural or legal person, public authority, agency or other body, which processes personal data on behalf of the **data controller**.*

See **GDPR Article 4(8)**.

## **Data Subject**

A living individual who is the subject of personal data i.e. who can be identified from it either on its own or in association with other information available to the **data controller**.

*Defined in **DPA2018**. The EU General Data Protection Regulation refers to a natural person who can be identified, directly or indirectly, in particular by reference to an identifier.*

## **DC Master Trust**

Under the provisions of **PSA2017**, a **DC master trust** is an **occupational pension scheme** which

- provides **defined contribution benefits**
- is used by at least two **participating employers**
- is used by unconnected **participating employers**
- is not a **public sector scheme**.

# Dd

## **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 **liabilities** calculated on a prescribed basis. Broadly, 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 sections 175 and 175A **PA1995** (as amended by **PA2004**) and *The Occupational Pension Schemes (Employer Debt) Regulations 2005* (SI 2005/678).*

## **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** as amended by the **Land Registration etc. (Scotland) Act 2012**.

## **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 Amendment**

A **deed** which amends the terms of the **pension scheme's trust deed** and **scheme rules**.

*See also **amendment power**.*

## **Deed Of Appointment**

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

## **Deed Of Covenant**

*Sometimes used for **deed of adherence**.*

## **Deed Of Participation**

A legal document which details the terms under which a **participating employer** participates in a **master trust**.

*See also **deed of adherence**.*

# Dd

## ***Deed Of Substitution***

A **deed** which changes the **principal employer** of a **pension scheme**. The incoming **principal employer** takes on the responsibilities of the outgoing **principal employer**.

## ***Deed Poll***

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

## ***Default Option***

An option that is selected automatically unless an alternative is specified. This is commonly used in **defined contribution schemes** in relation to choosing investment funds.

## ***Deferment***

- Period during which a **member** holds a **preserved benefit** from date of leaving or **opting out** of the scheme until the date pension becomes payable.
- Postponement of retirement, when a **member** remains in employment beyond **normal pension date** without taking any **benefit**.
- The choice to defer taking a **State pension** on reaching **State pension age**.

## ***Deferred Annuity***

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

## ***Deferred Debt Arrangement***

A type of **employer debt easement**, which allows an **employer** to leave a **defined benefit scheme** without triggering a **section 75 debt**. An **employment cessation** event is treated as never having occurred. The **employer** continues to be a **statutory employer** of the scheme for scheme **funding** purposes. Certain conditions must be met before a **deferred debt arrangement** can be entered into.

*See Regulation 6F of the Occupational Pension Schemes (Employer Debt) Regulations 2005.*

## ***Deferred Member***

A **member** entitled to a **preserved benefit** and who is neither an **active member**, nor a **pensioner**.

# Dd

## **Deferred Member Carve-Out**

A **deferred member** who will have part or all of their **benefit** annually uprated by price inflation (or such higher amount as provided by the **scheme rules** as they existed at 14 October 2010), will not have a **pension input amount** by virtue of that deferred membership.

*The **deferred member carve-out** applies where both the 'deferred member' and 'increase in benefits' conditions are met. The **deferred member carve-out** does not apply if either those conditions is not met, particularly if the **member** cannot be treated as a **deferred member**. Where a member has more than one **arrangement** within the same scheme, the **deferred member carve-out** may apply to one **arrangement** but not another. For example, the **member** may be a **deferred member** under one **arrangement** and an **active member** in another where the scheme basis changed from **defined benefit** to **defined contribution** and the **member's defined benefit benefits** ceased to accrue.*

## **Deferred Pensioner**

*See **deferred member**. The term can also be used to mean a **member** who has **postponed retirement** from a **pension scheme**.*

## **Deferred Retirement**

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

## **Deficit**

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

## **Deficit Contributions**

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

## **Deficit Reduction Contributions Certificate**

If the **sponsoring employers** have made payments that reduce the **deficit** of the scheme since the last **section 179 valuation**, there is an option to submit a **Deficit Reduction Contribution Certificate** to the **PPF** for the relevant year, so that the impact on **funding** is reflected in the calculation of the **risk-based levy** for that year.

## **Defined Accrued Benefits Method**

A **funding method** in which the calculation of **liabilities** is based on the **benefits** that would arise if the scheme were to discontinue at the valuation date. The **future service contribution rate** calculated is that necessary to cover the cost of benefit payments assuming benefit accrual ceased at the valuation date.

# Dd

## ***Defined Benefit Asset / Liability***

This is the difference between an entity's **defined benefit obligation** and the related plan assets.

*However, a **defined benefit asset** (or **surplus**) can only be recognised by an entity to the extent that it can recover the asset by reductions in future contributions or by refunds from the plan to the entity.*

## ***Defined Benefit Lump Sum Death Benefit***

A **lump sum** paid from a **defined benefit scheme** on death in specified circumstances, which is tested against the **member's** unused **Lifetime Allowance**.

*See section 68 and Schedule 29 **FA2004**.*

## ***Defined Benefit Obligation***

This is the **net present value** at the accounting date of the aggregate obligations of the reporting entity to the **defined benefit schemes** which it sponsors.

## ***Defined Benefit Scheme***

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

## ***Defined Benefit Underpin***

A **defined contribution occupational pension scheme** in which **members** are guaranteed that their pension will not be less than a specified amount.

## ***Defined Contribution Scheme***

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. No pension promise is made to the **member** in relation to retirement **benefits** that may be provided.

*Also known as **money purchase scheme**.*

*See **PSA2015**.*

## ***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.*

# Designated Assets



In **defined contribution schemes**, **contributions** may be invested separately for the benefit of named individuals for whom they were paid rather than into a common **fund** of assets. The **member's benefits** are defined by the amount of **contributions** invested by or on their behalf and so the assets are segregated and cannot be used to pay **benefits** for anyone other than that **member** (or their dependants). These assets are therefore designated as being held solely for the benefit of the named **members**.

*The SORP recommends that the **financial statements** should explain that **defined contribution** assets are allocated to provide **benefits** to individuals for whom they were paid, and disclose investments allocated, not allocated, designated and not designated to **members**.*

*See also **allocated assets**.*

# Dd

## **Depository**

An entity that provides **custody** and monitoring services in respect of a portfolio of assets.

See also **custodian**.

## **Derivative**

A financial contract between two parties where the value of the asset involved is derived from something else, such as the value of an underlying asset or an index based on asset prices.

*Derivatives may include **futures contracts, forward contracts, swaps and options**.*

## **De-Risking**

A strategy designed to reduce the scheme's exposure to risk arising from the uncertainties associated with aspects such as investment returns and longevity.

## **Designated Scheme**

A **stakeholder pension scheme** that an **employer** has chosen to offer to its 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, or in Northern Ireland, the Court of Appeal.

The process by which **The Pensions Regulator** decides to use its powers to intervene and remedy any breach of the legislation or problem arising within a work-based **pension scheme**. The **Determination** is issued by **The Pensions Regulator's Determinations Panel**.

## **Determinations Panel**

The panel established under section 9 of the **PA2004** which hears matters brought before it by **TPR** that are reserved regulatory functions, such as the power to make an order prohibiting a person from acting as **trustee**.

## **Deterministic Valuation**

A valuation using a single set of assumptions, giving a single result, rather than a range of outcomes. Alternative sets of assumptions may be used to illustrate sensitivities to key assumptions. This approach is generally used for a **scheme funding valuation**.

See also **stochastic valuation** and **scheme funding valuation**.

# Dd

## **Detrimental Modification**

A modification which, on taking effect, would or might adversely affect any **subsisting right** of a **member** or dependant of a member of the scheme. This term is used in connection with **section 67** of **PA1995** (as amended by **PA2004**).

## **Direct Discrimination**

Direct discrimination occurs when a person is treated less favourably than another “because of a protected characteristic”. The characteristics which are protected are age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation.

*The definition is broad enough to cover cases where the less favourable treatment is because of the victim’s association with someone who has that characteristic or because the victim is wrongly thought to have it. The relevant statutory provision is section 13 of the **Equality Act 2010**.*

See also **indirect discrimination**.

## **Direct Investment**

The method of investment under which the assets are managed directly by or on behalf of the **trustees**, as opposed to through **pooled funds** or **insurance contracts**.

Contrast **indirect investment**.

## **Disability Benefit**

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

*For example, from a **pension scheme**, an **ill-health early retirement benefit**; from an employer, a **benefit consequent on an injury at work**; or from an **employer** or an insurance policy, a **prolonged disability payment**.*

## **Disability-Related Discrimination**

Under the **Equality Act 2010**, it is discrimination to treat a disabled person unfavourably not because of the person’s disability itself but because of something arising from, or in consequence of, his or her disability, such as the need to take a period of disability-related absence.

*It will be possible to objectively justify such treatment. For this type of discrimination to occur, the **employer** or other person must know, or reasonably be expected to know, that the disabled person has a disability.*

*The relevant statutory provision is section 15 of the **Equality Act 2010**.*

# Dd

## Disclosure

- A requirement for **pension schemes** to disclose information about the scheme and **benefits** to interested parties.
- Rules introduced by regulatory bodies to disclose product and commission information to the purchasers of life assurance and insured pension products.

See *Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013*.

See also **disclosure regulations**.

## Disclosure Regulations

Regulations issued under **PSA1993** and **PAI1995**, **DPA1998** and **DPA2018** requiring **disclosure** of information about **pension schemes** and **benefits** to interested parties.

*From 6 April 2014, the main regulations governing disclosure are the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013. Stakeholder schemes are governed under the Stakeholder Pension Schemes Regulations 2000, as amended by SI 2013/2734.*

*Before 6 April 2014, the main regulations were the OPS (Disclosure of Information) Regulations 1996 and the PPS (Disclosure of Information) Regulations 1987, but these were revoked and replaced by the 2013 Regulations.*

## 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.*

## Discontinuance Valuation

See **solvency valuation**.

## Discount Rate

A rate of return used to discount future cash flows back to their **present value**.

*A **discount rate** is often derived from the investment return achievable by investing in low-risk assets such as government gilt-edged stock. A **discount rate** higher than this rate effectively takes advance credit for some of the extra investment return that is expected by investing in riskier assets other than gilts.*

## 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 **present value**.

# Dd

## **Discretionary Increase**

An increase in a pension in payment or in a **preserved benefit** arising on a discretionary basis i.e. other than from a system of **escalation** or **indexation**.

*Such an increase may be of a regular or an ad hoc nature.*

## **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**.

## **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.

## **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 on a discretionary basis.

## **Double Taxation Treaty**

An agreement between the tax authorities in the two countries which are party to the treaty to ensure tax payers (whether persons, companies or other entities such as **pension schemes**) do not pay tax twice on the same income.

## **Drawdown Pension**

*See **flexi-access drawdown fund**.*

## **Dual Calculation**

A method for addressing **GMP equalisation** under which, for any period(s) between 17 May 1990 and 5 April 1997, **GMP** and pension **benefits** calculations are recorded and compared on a year by year basis for a **member** based on both their actual sex and the opposite sex.

*There are a number of different **dual calculation** methods which differ in the approach used when comparing the male and female **benefits** to determine the amounts to pay to the **member**.*

# Dd

## ***Dual Records***

The practice of keeping administration records for a **member** based on both their actual sex and the opposite sex under a **dual calculation** method for addressing **GMP equalisation**.

## ***Duration***

The **duration** of a scheme's **liabilities** represents the average term to payment of the **liabilities**. In broad terms, if a scheme has a **duration** of 20 years, then it will respond to changes in gilt yields in a similar way to single cash flow payable in 20 years' time. In practice, there are several ways of defining **duration**.

## ***Dynamic Asset Allocation***

A strategy used by **investment managers** that seeks to increase returns and / or reduce risk by shifting the **asset allocations** within a portfolio as market conditions change.

## ***Dynamisation / Dynamism***

The index-linking of earnings for calculating scheme **benefits** under the **scheme rules**.

*Sometimes used to describe **escalation, indexation of pensions or revaluation**.*

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

# Ee

## **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**.

*See also **deferred member**.*

## **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 benefit**.*

## **Early Retirement Pivot Age**

The earliest age at which a **member** 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.

*The relevant statutory provision is The Equality Act (Age Exceptions for Pension Schemes) Order 2010.*

## **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 Order**

An order of the Court under the **Matrimonial Causes Act 1973**, as amended by the **PA1995**, 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 also **pension sharing order**.*

# *Eligible Jobholder*

For the purposes of the PA2008, this means a **jobholder** aged between 22 and **State Pension Age** who is earning more than **qualifying earnings** and normally works in Great Britain. As such, he or she is required to be subject to **automatic enrolment**.

*EEe*

# Ee

## **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.*

## **EMIR**

European Market Infrastructure Regulation which regulates **derivative** trading within the European Union.

## **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 **PA1995**). **Employee trustees** need not be **member-nominated trustees**.*

## **Employer**

The person or body with whom the **member** of a **pension scheme** has or has previously had an employment relationship, whether through a contract of employment or by virtue of being treated as a **worker** of the employer.

*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 **pension scheme**.

## **Employer Debt Easements**

Easements contained in the Occupational Pension Schemes (Employer Debt) Regulations 2005 allowing an **employer** to leave a **multi-employer defined benefit scheme** without making an immediate payment in respect of its full **section 75 debt** or full share of its **liabilities**. Easements include: **scheme apportionment arrangements, regulated apportionment arrangements, deferred debt arrangements, flexible apportionment arrangements, withdrawal arrangements and approved withdrawal arrangements.**

## **Employer-Financed Retirement Benefits Scheme (EFRBS)**

A pension arrangement which is not a **registered pension scheme**.

*Because an **EFRBS** is not registered, it does not benefit from the tax privileges extended to **registered pension schemes** under **FA2004**. Prior to **A Day**, such schemes were known as either **Funded Unapproved Retirement Benefit Schemes (FURBS)**, or **Unfunded Unapproved Retirement Benefit Schemes (UURBS)** as appropriate.*

# Ee

## ***Employer-Funded Pensions Advice***

From 6 April 2017 **employers** are able to either pay for, or reimburse employees, prospective employees or former employees for the cost of taking **relevant pensions advice** without this being treated as a **benefit in kind**.

## ***Employer-Related Investment (ERI)***

Investment of the assets of the scheme in a **participating or associated employer**, for example, shares or other securities, land and property used by the **employer** and loans (section 40 **PA1995**). 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**, as laid down by **PA1995**.*

## ***Employer's Normal Contributions***

The **contributions** payable to an **occupational pension scheme** by the **employer**, for example a fixed amount or a fixed percentage of the **employer** payroll.

## ***Employment Benefit Trust (EBT)***

An umbrella vehicle that allows a company to provide deferred remuneration to its employees (and their families) in almost any form it chooses. A wide range of assets, including property, can be held in these **trusts**. Also referred to as an employee share ownership plan (ESOP) or an employee share trust.

## ***Employment Cessation Event***

When an **employer** ceases to employ at least one person who is an **active member** of a **multi-employer defined benefit scheme** while at least one other **employer** with **defined benefit liabilities** in the scheme continues to employ at least one **active member** of that scheme.

## ***Endowment Policy***

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

## ***Enhanced Indexation***

Refers to the strategies employed by **investment managers** to produce modest outperformance compared to **indexation** or other **passive management** strategies.

## ***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 **member** 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 are subject to several important conditions.

*See section 263 and Schedule 36 **FA2004**.*

# Ee

## Enhanced Transfer Value (ETV)

A **transfer value** that is higher than the scheme's usual **cash equivalent transfer value**.

*Usually offered under a company-led initiative designed to encourage **members** to transfer out of a **defined benefit scheme**. The enhancement may be funded by a special **contribution** from the **employer** or paid from scheme assets.*

*See also **incentive exercise**.*

## Entitlement Date

For the purposes of legislation the **member** becomes entitled to a **benefit** at the point they first obtain an actual right to receive it. This actual right has to be distinguished from their prospective right. An actual right is when a **member** has the right to a **benefit** without having to fulfill any further conditions or take any further actions, e.g.

- having to agree to or authorise the payment of a **benefit**, or
- having to obtain an **employer's** or **trustee/scheme administrator's** agreement or co-operation to **benefit** payment.

Although the term actual right refers to the receipt of real **benefit**, rather than merely being in possession of a right to obtain it, it does not necessarily refer to the date a **benefit** is actually paid out. A **benefit crystallisation event** (BCE) occurs when the **member** becomes entitled to their **benefits**, therefore **entitlement date** becomes the date of BCE.

Where an **administrator** is in possession of everything needed to settle the **benefits** before the **member's** retirement date the **entitlement date** and therefore **BCE** date will be the retirement date. Where an **administrator** receives the **member's** retirement forms and/or consents after their retirement date the **entitlement date** is the date on which the **administrator** is in possession of everything needed to settle the **benefits**.

## Environmental, Social And Governance Considerations (ESG)

There is no fixed definition of **ESG** investment. However, it is generally taken to refer to those **environmental, social and governance considerations** that may have an effect on the value of an **investment**.

*Contrast **socially responsible investment** and **social impact investment**.*

## 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.*

# Ee

## **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 Prices Index (RPI) or the Consumer Prices Index (CPI).*

See also **indexation of pensions**.

## **Ethical Standards**

Standards issued by the **FRC** covering ethical conduct (including integrity, objectivity and independence) which apply to the **auditor of financial statements**.

## **European Court Of Justice (ECJ)**

Now known as the **Court of Justice of the European Union (CJEU)** which hears cases and preliminary references under European Community law.

## **Event Report**

Used by the **scheme administrator** to notify **HMRC** of **reportable events** for a tax year.

*Regulation 3(1) of the Registered Pension Schemes (Provision of Information) Regulations 2006 (as amended) specifies which events are reportable.*

See also **reportable events**.

## **Excess Benefits (in relation to contracting-out)**

**Benefits** provided by a **defined benefit scheme** which are over and above any **Guaranteed Minimum Pension (GMP)**.

*These **benefits** are not subject to the rules applying to **GMPs**.*

## **Exchange**

An online system allowing **trustees** to share information about their **occupational pension scheme** with **The Pensions Regulator**.

*Some of the information is also used by the **Pension Protection Fund**. **Exchange** can be used to register a new scheme, submit a **scheme return**, submit details from an **actuarial valuation**, report a breach or **notifiable event** or advise that a scheme has wound up.*

## **Exchange Of Letters**

A letter from an **employer** to an employee that 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.

## **Exchange-Traded Fund (ETF)**

A fund that tracks an index and can be traded in a similar manner to an **equity**.

# Ee

## ***Excluded Person***

From 1 December 2010, an **excluded person** is a **member** or **beneficiary** whose present postal address and electronic address is not known to the **trustees** of the scheme and in respect of whom the **trustees** of the scheme have sent correspondence to either their last known postal address and that correspondence has been returned or to their last known electronic address and the **trustees** of the scheme are satisfied that that correspondence has not been delivered.

*Trustees are exempted from certain of the provisions of the **Disclosure Regulations** in respect of **excluded persons**. See *Occupational Pension Schemes (Disclosure of Information) Regulations 1996* Regulation 1 subsequently extended to include **pension credit members** from 1 December 2000 and electronic forms of communication from 1 December 2010.*

## ***Exempt Unit Trust***

A **unit trust** specifically designed for pension funds and charities, which enjoys the same tax advantages as a **direct investment**.

## ***Exoneration Provision***

An **exoneration provision** in a **definitive trust deed** is a provision that exonerates a **trustee** from wrongdoing in the operation of the **pension scheme**. It provides protection against claims brought by scheme **members** and **beneficiaries** in the case of breach of **trust** and/or negligence on the part of the **trustee**. The practical effect is that no actionable claim arises against the **trustee**.

*The provision does not protect against fraud on the part of a **trustee**.*

## ***Expected Rate Of Return On Assets***

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.

## ***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**.

# Ff

## **Fair Presentation**

The disclosure to an insurer by a person seeking insurance of every material circumstance, which he/she knows or ought to know about, that would influence the insurer's decision whether to insure the risk and on what terms.

## **Fair Value Hierarchy**

A required disclosure in **pension scheme** accounts is an analysis of its **investment assets** in a **Fair Value Hierarchy**, using 3 levels reflecting the method of arriving at **fair value**, where:

- Level 1 = unadjusted quoted prices for identical assets and **liabilities** in active markets
- Level 2 = other observable inputs for the asset or **liability** such as quoted prices in active markets for similar assets or **liabilities** or quoted prices for identical assets or **liabilities** in markets which are not active
- Level 3 = unobservable inputs developed by an entity using the best information available where there is little or no market activity for the asset or **liability** at the measurement date

## **Fiduciary Management**

An **investment** approach which involves the **trustees** appointing an **investment manager** to manage the total assets of the scheme on an integrated basis through a combination of advisory and delegated **investment** services, with a view to achieving the **trustees'** overall objectives.

## **Final Pensionable Earnings / Pay / Salary**

The earnings on which the **benefits** are calculated in a **defined benefit 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**.

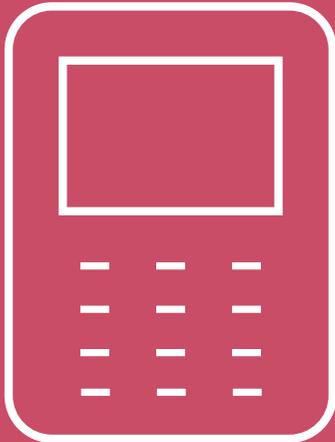
*The earnings taken into account are often an average over the last few years of **pensionable service**.*

## **Financial Assistance Scheme (FAS)**

A scheme established to assist **members** who have lost all or part of their **defined benefits** under a qualifying **occupational pension scheme** through **employer** insolvency but who are not covered by the **Pension Protection Fund** as the wind-up commenced before 6 April 2005 (and on or after 1 January 1997). **FAS assistance**, as well as the costs of managing **FAS**, are entirely funded out of general taxation.

*The **Board of the PPF** was appointed as the **FAS Scheme Manager** from July 2009.*

# Fair Value



The amount for which an asset could be exchanged, a **liability** settled, or an **equity** instrument granted could be exchanged, between knowledgeable, willing parties in an arm's length transaction.

*Fair value* accounting is required for all **pension scheme** assets and **liabilities**, particularly for the schemes' **investment assets and liabilities**.

# Ff

## **Financial Assistance Scheme (FAS) Assistance**

FAS assistance consists of a top-up to a scheme pension to bring the payment up to 90 per cent of the pension an eligible **member** has accrued.

*The combined total of the payments to any one member is capped. The cap will be revalued on an annual basis in line with the **Consumer Prices Index**.*

## **Financial Conduct Authority (FCA)**

Established by the **Financial Services Act 2012** from 1 April 2013, the **Financial Conduct Authority (FCA)** regulates the financial services industry in relation to the selling, management and handling of investments by firms to or for investors in the UK. It is also responsible for prudential regulation of smaller firms that do not fall under the **Prudential Regulation Authority's (PRA)** jurisdiction.

## **Financial Instrument**

A **financial instrument** is a monetary contract between parties. A **financial instrument** may be evidence of ownership of part of something, as in shares.

***Bonds**, which are contractual rights to receive cash, are **financial instruments**.*

## **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 high-quality corporate reporting and governance in the UK and Republic of Ireland.

*Among many other things the **FRC** sets **accounting standards** for the UK and Republic of Ireland. The **FRC** is also the body which authorises other bodies to issue **Statements of Recommended Practice (SORPs)** in specialist sectors.*

## **Financial Reporting Exposure Draft (FRED)**

A draft UK **financial reporting standard (FRS)** which sets out the text of the proposed standard and is issued for review and consultation prior to its release as a final document.

# Ff

## **Financial Reporting Standard (FRS)**

Accounting standards issued by the FRC are contained in **Financial Reporting Standards (FRSs)**. They apply to all companies and other kinds of entities, including **pension schemes**, which prepare accounts that are intended to give a **true and fair view**. **FRS 100, 101, 102, 103 and 105** (known as new UK GAAP) are effective from 1 January 2015 and replace existing financial reporting standards issued by the FRC for reporting periods commencing on or after 1 January 2015. **FRS 102** is applicable to **pension schemes**.

See also IFRS/IAS.

## **Financial Reporting Standard 102 (FRS 102)**

**FRS 102** is the **Financial Reporting Standard** applicable in the UK and Republic of Ireland. In other words, a single financial reporting standard that applies to the **financial statements** of entities that are not applying EU-adopted **IFRS, FRS 101** (Reduced Disclosure Framework) or **FRS 105** (Micro-entities).

***FRS 102** is designed to apply to the general-purpose **financial statements** and financial reporting of entities including those that are not constituted as companies and those that are not profit-oriented. **Retirement benefit schemes** are therefore in scope of **FRS 102**, as a type of financial institution, and are recognised within the standard as a “specialised activity”. The standard sets out a number of specific reporting requirements, as well as some exemptions from the additional disclosure*

*requirements applying to financial institutions.*

*The **Pension Schemes’ SORP** provides recommendations on the application of **FRS 102** to the **financial statements** of **pension schemes**.*

## **Financial Reports Of Pension Schemes – A Statement Of Recommended Practice (Pension Schemes SORP)**

The PRAG publication which constitutes the recommendations for accounting practices for the **pension scheme** sector.

*The **Audited Accounts Regulations** require the **trustees** or **managers** of **pension schemes** to include in their financial statements a “statement whether the accounts have been prepared in accordance with the relevant financial reporting framework applicable to **occupational pension schemes** current at the end of the **scheme year** to which the accounts relate and, if not, an indication of where there are any material departures from this framework”. This “financial reporting framework” is deemed to consist of the **Pension Schemes’ SORP** and associated guidance, supported by **FRS 102** and other components of **UK GAAP** where, for example, the **SORP** is silent.*

# Ff

## **Financial Services Compensation Scheme (FSCS)**

An independent body set up under the **Financial Services and Markets Act 2000**.

*It is 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.

In a **pension scheme** the **financial statements** comprise the **Fund Account**, the **Statement of Net Assets (available for benefits)** and the related notes. The recommended contents of the **financial statements** of **occupational pension schemes** are contained within the **Pension Schemes SORP**. The **Audited Accounts Regulations**, which specify the contents of statutory **financial statements**, use the term **accounts** rather than **financial statements**.

## **Financial Support Direction (FSD)**

A direction that can be made by **The Pensions Regulator** under section 43 of **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.

*The **employer** of the scheme in question must be or have been a service company or insufficiently resourced in accordance with section 43(2) of **PA2004** and **The Pensions Regulator** must consider it “reasonable” to issue the direction, having regard to such matters as are relevant including, where relevant, the matters set out in section 43(7).*

## **Fit And Proper Test**

In the context of **DC master trusts**, this refers to an assessment made by **The Pensions Regulator** that the key people involved in the operation and governance of a **DC master trust** are of an appropriate standard to be able to fulfil their particular role. It is a requirement of **The Pensions Regulator's Master Trust Authorisation** assessment.



### **Fixed Protection 2012**

A term used in connection with the reduction in **Lifetime Allowance** to £1,500,000 from 6 April 2012. **Fixed Protection 2012** is available to those who do not have **Primary Protection** or **Enhanced Protection**. Those who applied for **Fixed Protection 2012** before the reduction have a **Lifetime Allowance** of £1,800,000 instead of the reduced amount. However, to keep this protection the **member** must, with a few exceptions, meet the following conditions:

- no new **contributions** can be paid to any other **defined contribution** arrangement
- a new pension **arrangement** may only be effected if its sole purpose is to receive a transfer from an existing pension arrangement and
- there must be no **benefit** accrual arising under a **cash balance** or **defined benefit scheme**.

### **Fixed Protection 2014**

Members with **Fixed Protection 2014** will have a **Lifetime Allowance** of £1.5 million subject to certain conditions.

### **Fixed Protection 2016**

Members with **Fixed Protection 2016** will have a **Lifetime Allowance** of the greater of:

- the value of their pension savings at 5 April 2016, subject to an overall maximum of £1.25 million; and
- the **Standard Lifetime Allowance**.

### **Fixed Rate Revaluation**

A method used by a Contracted-Out Salary Related (COSR) scheme to revalue **Guaranteed Minimum Pension (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.

### **Flexi-Access Drawdown Fund**

A form of **income drawdown** allowing members to draw down any amount of their pension fund over whatever period they choose.

*Designation of funds into a **flexi-access drawdown fund** constitutes a **Benefit Crystallisation Event** where crystallisation occurs before age 75. Income tax will be liable at the **member's** marginal rate on the full amount drawn down. A **pension commencement lump sum (PCLS)** can be taken on designation to **flexi-access drawdown**.*

# Ff

## **Flexi-Access Drawdown Fund Lump Sum Death Benefit**

A **flexi-access drawdown fund lump sum death benefit** is available:

- from the **member's flexi-access drawdown fund** at the date of the **member's** death; or
- on the death of a **dependant**, nominee or successor of the **member** in respect of income withdrawal at the date of their death from the relevant **flexi-access drawdown fund** arrangement relating to the **member**.

## **Flexible Apportionment Arrangement**

An arrangement which allows a departing **employer**, under a legally binding agreement, to apportion some or all of its **section 75 liabilities** in a **multi-employer defined benefit scheme** to a different **participating employer**. Certain conditions apply, including usually that the funding test set out in Regulation 2(4A) of the Occupational Pension Schemes (Employer Debt) Regulations 2005 must be met.

*See also Regulation 6E of the Occupational Pension Schemes (Employer Debt) Regulations 2005.*

## **Flexible Benefit**

A money purchase **benefit**, a **benefit** under a **cash balance arrangement** or other **benefit** calculated by reference to an amount available for the provision of **benefits** to or in respect of the **member**.

*As defined in section 74 of PSA2015.*

## **Flexible Retirement**

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

*This facility was introduced in FA2004.*

## **Flexible Retirement Offer**

An option allowing a **member** to transfer their **benefits** out of a scheme at retirement to secure **benefits** via a **defined contribution arrangement** instead of drawing their **benefits** through the scheme.

*Examples include taking a pension without an attaching spouse's pension or pension increases, taking the **benefits** as a taxable lump sum or as **income drawdown**.*

# Ff

## **Flight Plan**

A plan to reduce risk within the **investment strategy** when specific trigger levels are reached.

*Typical triggers may relate to the scheme's **funding level** (funding-based), the level of market yields or indices (market-based), or the time elapsed (time-based).*

## **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 section 91 – section 95 PA1995 and regulations e.g. assignment or exercise of a **lien**.

## **Forward Contract**

*See **futures contract**.*

## **Franking**

A historical scheme practice where the statutory increases in **Guaranteed Minimum Pension (GMP)** between termination of contracted-out employment and **GMP** payment age were offset against other scheme **benefits** instead of being added to a **member's** total **preserved benefits**. **Franking** is not permitted in respect of **members** whose contracted-out employment ended on or after 1 January 1985.

*See **anti-franking requirements**.*

## **Fraud Compensation Fund (FCF)**

The statutory fund established under **PA2004** to pay compensation to the **trustees** of eligible **occupational pension schemes** where:

- the **employer** has become insolvent or is unlikely to continue as a going concern
- the **pension scheme** cannot be rescued, and
- the scheme has lost funds because of an offence involving dishonesty.

*The **FCF** is managed by the **Board of the PPF**.*

# Ff

## **Fraud Compensation Levy**

A levy potentially payable to the **Fraud Compensation Fund** by all **occupational pension schemes** eligible for compensation from the Fund. The **Board of the PPF** will determine when schemes are required to pay the levy and at what rate per **member** (subject to a statutory cap). **Defined contribution schemes** (not covered by the **PPF**) are eligible for fraud 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.

## **Freedom And Choice**

Reforms announced by the Chancellor in the 2014 Budget which increased the options available for **members** who access their **flexible benefits** from 6 April 2015. The reforms included greater flexibility in terms of **annuity** purchase and **income drawdown**, and the ability to make one or more cash withdrawals (with 25% of the withdrawal being tax free and the remaining 75% being taxed at the **member's** marginal rate of income tax).

*These changes were introduced by **The Taxation of Pensions Act 2014** and the **Finance Act 2004** as amended.*

## **Freezing Order**

An order that 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**.*

# Ff

## **Frozen Benefit**

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

## **Frozen Scheme**

See **paid up scheme**.

## **FRS 100**

**FRS 100** Application of Financial Reporting Requirements sets out a financial reporting regime for UK entities effective from 1 January 2015. It explains which standards apply to which entity, when an entity can apply the reduced disclosure framework (set out in **FRS 101**), and when an entity should follow a **SORP**.

## **FRS 101**

**FRS 101** Reduced Disclosure Framework sets out disclosure exemptions available to UK qualifying subsidiaries and parent companies that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted **IFRS**.

## **FRS 102**

See **Financial Reporting Standard FRS 102**.

## **FRS 105**

**FRS 105** is the UK accounting standard for entities eligible for and who choose to apply the micro-entities regime.

## **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 the net return on the scheme's **investments** during the **scheme year**.

*The fund account is required by the **Audited Accounts Regulations** and **FRS 102**, and is described in the **Pension Schemes SORP**.*

## **Fund Of Funds**

A **pooled fund** which invests in other **pooled funds**.

# Ff

## **Funded Unapproved Retirement Benefits Scheme (FURBS)**

A funded **occupational pension scheme**, not designed to be a **registered pension scheme** established before A Day.

*See also **employer-financed retirement benefits scheme**.*

## **Funding**

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

## **Funding Level**

The ratio at a specified date between the value of a scheme's assets and its **liabilities**. This is normally expressed as a 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** may be based on **accrued benefits** or, less commonly, prospective **benefits**. 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 valuation** and **Statement of Funding Principles**.

## **Future Service Contribution Rate (FSCR)**

Only relevant for schemes still open to accrual, this is the cost of **benefits** accruing expressed as a percentage of the **members' pensionable pay**.

*It considers the **present value** of the **benefits** expected to accrue to **members** and the **pensionable pay** expected to be paid to **members** over a given period (referred to as the control period).*

## **Futures Contract**

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



## General Levy

This term usually refers to the **levy** which meets the expenditure of **The Pensions Ombudsman** and **The Pensions Regulator**. It is payable by **registered pension schemes** and **personal pension schemes**.

## Gilts

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

## Glide Path

*See flight plan.*

## Global Custodian

A **custodian** with responsibility for custody of assets of different classes managed by different **investment managers**.

## Global Investment Performance Standards (GIPS)

A set of global ethical principles established by the CFA Institute that provide guidance to investment firms on how to calculate and report their investment results to clients and prospective clients.

## GMP Conversion

A method for addressing **GMP equalisation** under which, for any period(s) between 17 May 1990 and 5 April 1997, an **actuary** calculates the **present value** of a **member's benefits** based on both their actual sex and the opposite sex and the higher of the two values is then converted into **benefits** which are no longer subject to the requirements of the **GMP** legislation.

## 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.

## Group Transfer

*See bulk transfer.*

## Guaranteed Annuity

An **annuity** payable for a guaranteed minimum period of years and thereafter for 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

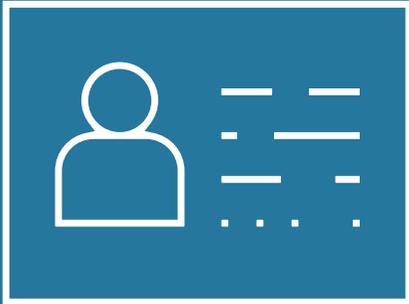
The right to apply the proceeds of an insurance policy to buy an **annuity** at a rate guaranteed in the policy.

## Guaranteed Minimum Pension (GMP)

The minimum pension which a **defined benefit occupational pension scheme** must provide in respect of contracted-out **contributions** paid between April 1978 and April 1997, as a condition of **contracting-out**.

*Contracting-out on the **defined benefit** basis was abolished with the introduction of the **Single Tier State Pension** from 2016.*

# *GMP Equalisation*



The requirement for **trustees** to amend **pension scheme rules** to provide overall equal **benefits** for male and female **members** with **Guaranteed Minimum Pensions (GMPs)**.

*The term **GMP equalisation** is not strictly correct as the **GMPs** themselves are not being equalised, but it is the term that is most frequently used and is widely understood to mean equalising for the effect of **GMPs**.*

# Hh

## **Hedge Fund**

There is no single definition of a **hedge fund**. It is generally used to refer to funds with certain characteristics, such as the ability to use **leverage** and the ability to take both long and short positions with the aim of achieving an **absolute return**.

*A large variety of **hedge fund** strategies exist and the level of risk taken will vary.*

## **HM Revenue & Customs (HMRC)**

**HM Revenue & Customs (HMRC)** is a non-ministerial department of the UK Government responsible for the collection of taxes, the payment of some forms of state support and the administration of a number of regulatory regimes, including the pension regime.

*It has the responsibility for the registration of **pension schemes** and for monitoring the compliance of **pension schemes** and **sponsoring employers** with **pensions-related tax law** as well as the taxation of **contributions** and **benefits**.*

## **HMRC Pension Scheme Services**

The unit within **HMRC** that deals with the policy, operational and technical work relating to **pension schemes**.

## **Hybrid Scheme**

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

# Hedging

A strategy that aims to reduce potential losses in an **investment** by reducing the overall level of risk. For example, using **derivatives** to protect against currency risk, inflation risk or interest rate risk.

# IAS 19



**IAS 19** prescribes the accounting for all types of employee **benefits** except share-based payment. Employee **benefits** are all forms of consideration given by an entity in exchange for service rendered by employees or for the termination of employment. Consideration includes **benefits** which may not become payable until after the completion of employment, including post-retirement **benefits**.

*IAS 19 applies to all entities which sponsor pension plans, whose financial statements are required to be prepared under the **IFRS** financial reporting framework.*

# Li

## **Ill-Health Condition**

The condition set out in paragraph 1 of Schedule 28 to the **FA2004**, which must be met in order for a **beneficiary** to receive payment of **benefits** before NMPA without the payment constituting an **unauthorised payment**.

## **Ill-Health Early Retirement Benefit**

Immediate payment of retirement **benefits** on medical grounds before **normal pension date**. The **benefit** may exceed that payable on **early retirement** in other circumstances subject to the **scheme rules** and conditions being met.

*Retirement before NMPA is possible from 6 April 2006 where the **ill-health condition** is met. Full commutation of **benefits** is allowable for **members** in **serious ill-health** provided that certain conditions are met.*

## **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**

Used by **The Pensions Regulator** to encourage compliance with legislative requirements. It can prescribe the action to be taken and there are financial penalties for failure to comply.

*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.*

## **Incapacity**

**Incapacity** had a specific meaning before **A Day** derived from the restrictions that were contained in Practice Notes (IR12), i.e. 'Physical or mental deterioration which is sufficiently serious to prevent the individual from following his or her normal employment, or which seriously impairs his or her earning capacity. It does not mean simply a decline in energy or ability.'

*The generic meaning is the inability to continue working due to ill health or disability, however, a scheme's specific meaning of **incapacity** may be defined in its **scheme rules**.*

***Incapacity** is not a term that is defined in the legislation covering **pension schemes** on and after **A Day**.*

*See Schedule 28 Paragraph 1 **FA2004**.*

# Ii

## ***Incentive Exercise***

An exercise in which a **sponsoring employer** of a **defined benefit scheme** seeks to remove or reduce its **liabilities** by persuading **members** to transfer or modify **benefits**.

*See also **enhanced transfer values, flexible retirement offer and pension increase exchange.***

## ***Income Drawdown***

Withdrawal by a **member** of income from a **registered pension scheme** that provides **benefits** on a **defined contribution basis**.

## ***Indemnity Provision***

An **indemnity provision** also provides protection in the event of a breach of **trust** (but not fraud) and/or negligence claim brought by a **member** or **beneficiary** against a **trustee**. The indemnity would recompense the **trustee** for any costs associated with such a claim out of the scheme's assets or through the **employer**.

## ***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** reports is prefixed by the word **independent** to emphasise this.*

*See also **auditor and scheme auditor.***

## ***Independent Trustee***

An individual or corporate body who has no interest in the assets of the **employer** and is not connected with the **employer** or any **insolvency practitioner** or official receiver appointed in respect of the **employer**. More generally, an **independent trustee** is an individual or corporate body with no direct or indirect involvement with the **pension scheme, employer** or **members**, other than performing the duties of a **trustee**.

*Under section 22 to section 26 **PA1995**, an **independent trustee** may be appointed by **The Pensions Regulator** to an **occupational pension scheme** in certain circumstances, including where an **insolvency practitioner** has been appointed in respect of an **employer**.*

## ***Indexation***

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.

# Ii

## **Indexation Of Pensions**

Where 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 **dynamisation and escalation**.*

## **Indirect Discrimination**

This occurs when a policy which applies in the same way for everybody has an effect which particularly disadvantages people with a “protected characteristic”. Indirect discrimination applies to all the protected characteristics, apart from pregnancy and maternity. Where a particular group is disadvantaged in this way, it may be possible for the policy to be objectively justified (i.e. the policy is a proportionate means of achieving a legitimate aim).

*The relevant statutory provision is section 19 of **Equality Act 2010**. See also **direct discrimination**.*

## **Indirect Investment**

The method of **investment** by which the assets are invested through **pooled funds** or insurance contracts.

## **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)**

This is not a **registered pension scheme**. It is an additional way of holding assets within a **registered pension scheme**, whatever type of scheme the **member** has.

*Use of an **IPA** provides a means of investing pension assets in **unit trusts** and **investment trusts** at the **member's** choice and can be changed according to the **member's** preference over a working lifetime.*

## **Individual Protection 2014**

**Individual Protection 2014 (IP14)** will provide **members** with pension savings above £1.25m, a personalised **Lifetime Allowance** based on the value of their pension savings at 5 April 2014 (up to £1.5m).

## **Individual Protection 2016**

Individuals with **Individual Protection 2016** will have a **Lifetime Allowance** of the greater of:

- the value of their pension savings at 5 April 2016 (the relevant amount), subject to an overall maximum of £1.25m, and
- the **Standard Lifetime Allowance**.

# Ii

## **Inducement**

Any action taken by an **employer** for the sole or main purpose of encouraging an individual to opt-out of, or cease being an **active member** of, a **qualifying scheme**.

*See also **opting out, qualifying scheme** and **automatic enrolment**.*

## **Industry-Wide Scheme**

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

## **Inflation Proofing**

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

## **Inflation Risk Premium (IRP)**

The difference between the **best estimate** of future inflation and its market price.

*A deduction equal to the estimated **IRP** may be made to the inflation **assumption** implied by market pricing in order to determine the inflation **assumption** to use for an **actuarial valuation** or pensions accounting disclosures.*

## **Initial Notice**

Formal communication from **trustees to members** where a scheme is in wind up or on entry into the **PPF assessment period**, to be issued within one month of the date of **winding up** or the **PPF assessment date**.

## **Insolvency Practitioner**

A person who has been appointed in relation to a company, individual or partnership to manage their affairs in the event of financial difficulties and, in the case of a company, may have been appointed to liquidate and wind up the company.

*If an **employer** enters administration, receivership or liquidation and it operates a **defined benefit scheme**, the **insolvency practitioner** will need to notify the **PPF** and/or may be involved in restructuring the **pension scheme** by way of a **regulated apportionment arrangement**.*

## **Insolvency Risk Score**

Insolvency risk is the risk that an entity (such as an individual, partnership, company or charity) will experience an insolvency event within a specified period. The **Board of the PPF** collects relevant financial and other information on the **sponsoring employers** of eligible **pension schemes** in order to assess the relative insolvency risk of all these **employers**, and to generate a numerical value, known as the **insolvency risk score**, for each **employer**. This value is then used in the calculation of the **risk-based levy**.

# Ii

## ***Insured Scheme***

A **pension scheme** where the sole long-term **investment** medium is an insurance policy.

## ***Integrated Risk Management***

An approach to identifying and managing risk for **defined benefit schemes**, focusing on **employer covenant**, **investments** and **funding**.

## ***Integration***

The design of a **pension scheme** where State scheme benefits, in whole or in part, are taken into account in the scheme's **benefit** structure.

## ***Interest Cost***

Used in **FRS 102** and **IAS 19** to mean the expected increase over a period in the **present value** of the scheme **liabilities** because **benefits** are closer to payment at the end of that period.

## ***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 **declaration of trust** or **exchange of letters**.*

## ***Internal Controls***

**Trustees** and managers of private sector **occupational pension schemes** are required to establish and operate **internal controls** adequate to ensure that the **pension scheme** is administered and managed in accordance with the **trust deed** and **scheme rules** and with the law. **TPR's** Code of Practice No.9 and accompanying guidance sets out **TPR's** expectations; these include a recommendation that **trustees** carry out a risk assessment of the **pension scheme**.

*See section 249B of **PA2004** and the **Occupational Pension Schemes (Internal Controls) Regulations 2005**.*

## ***Internal Dispute Resolution Procedure (IDRP)***

**Occupational pension schemes** are required (subject to exceptions) by section 50 **PA1995** to have a procedure to deal with disputes between **trustees** on the one hand and **members** and **beneficiaries** on the other hand.

# Ii

## **International Federation Of Accountants (IFAC)**

The global organisation for the accountancy profession which establishes and promotes international standards and speaks for the profession on public policy issues.

*IFAC supports four independent standard-setting boards which establish international standards on ethics, auditing and assurance, accounting education and public sector accounting. One of these boards is the International Auditing and Assurance Standards Board (IAASB).*

## **International Financial Reporting Standard (IFRS) / International Accounting Standard (IAS)**

A **Financial Reporting Standard** is a standard or statement issued by a relevant authority (in the UK, the **FRC**; internationally, the International Accounting Standards Board (IASB) which sets out the required treatment of the specified type of transaction or balance in the **financial statements** of the entity covered by the standard.

*Compliance with relevant **FRSs** or **IFRSs** is normally required in order that the **financial statements** give a **true and fair view** of (or present fairly) the entity's financial performance and position. The predecessor body to the IASB, the International Accounting Standards Committee, issued standards entitled **International Accounting Standards (IAS)**, some of which are still in force.*

## **International Standards On Auditing (ISA)**

There are two sets of **ISAs**:

- the **ISA** issued by the **International Federation of Accountants (IFAC)** through the International Auditing and Assurance Standards Board (IAASB), and
- the **ISA** (UK and Ireland) issued by the **FRC**.

*The **ISA** (UK and Ireland) was derived from the original **ISA** and enhanced and so is more comprehensive than the original **ISA**.*

*See **auditing standards**.*

## **International Swaps And Derivatives Association (ISDA) Agreement**

A standard-form legal document underpinning the agreement between two **counterparties** (e.g. a bank and a pension fund) who wish to trade **over the counter derivatives**.

*See also **credit support annex**.*

# Ii

## ***Investment / Investment Asset / Investment Fund***

The **investments** of a **pension scheme** are the **financial instruments** and investment properties held by the scheme in order to generate income and capital growth as a contribution to the scheme's long-term objective of meeting its pension and other **liabilities** as they fall due for payment — even though those **liabilities** may not become payable for many years into the future.

**Investment assets** (and **investment liabilities**) therefore contrast with the scheme's **current assets** and **current liabilities**, which normally arise as a result of the scheme's day to day operating activities such as collecting **contributions** and paying **benefits**.

**Investment assets** and **liabilities** are required to be valued at **fair value**.

## ***Investment Company With Variable Capital***

See **open-ended investment company**.

## ***Investment Management Agreement (IMA)***

The contract 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 Manager***

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

## ***Investment Period***

See **commitment period**.

## ***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 one of the **members** is able to influence what the **pension scheme** invests in.

# Ii

## ***Investment Regulations***

Regulations issued under **PAI995**, which set out the contents of a **statement of investment principles (SIP)** and the factors **trustees** should take into account when making **investment** decisions, and impose restrictions on the amount of resources a **pension scheme** may invest in **employer-related investments (ERI)**. They also exempt some schemes from the requirement to obtain a **SIP**.

*The main regulations are the Occupational Pension Schemes (Investment) Regulations 2005 (SI 2005/3378) and the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010 (SI 2010/2161).*

## ***Investment Strategy***

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

## ***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**.

## ***ISAE 3402***

**ISAE 3402** provides an international assurance standard for allowing **auditors** to issue a report for use by user organisations and their **auditors** (user auditors) on the controls at a service organisation that are likely to impact or be a part of the user organisation's system of **internal controls** over financial reporting.

# Jj

## ***Jobholder***

A **worker** in Great Britain who:

- works, or ordinarily works in Great Britain
- who is aged at least 16 and under 75 and
- to whom **qualifying earnings** are payable.

*See also **automatic enrolment**.*

## ***Joint Life Annuity***

An **annuity** payable until the last of two annuitants, often the **member's** spouse or partner, dies. The amount of the **annuity** often changes on the first death.

# Kk

## ***Key Features Document***

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

# L

## **Late Retirement**

The provision 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 with actuarial enhancement.

*The relevant statutory provision is The Equality Act (Age Exceptions for Pension Schemes) Order 2010.*

## **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 has ceased, and the level of earnings is higher when he/she retires or leaves than the date they ceased to be **contracted-out**.

## **Legal Personal Representative (LPR)**

Person acting in place of a deceased **member** for the purposes of discharging legal obligations, including negotiation with debtors and creditors. The executor of the **member's** estate where there is a will, otherwise the **person** taking out letters of administration.

After settling debts, the **LPR's** duty is to dispose of the property of the deceased in accordance with the will or inheritance law as appropriate.

## **Levelling Down/Up**

A term that tends to be used in the context of equalising **normal retirement ages** for **defined benefit scheme members** and is best explained by using an example. It was common for the **normal retirement dates** of a **defined benefit scheme** to be different for male and female **members**.

*For example, often the **normal retirement date** would follow the **state retirement date**, meaning that in many schemes, a male **member's normal retirement date** would be his 65th birthday and a female **member's normal retirement date** would be her 60th birthday.*

*The scheme could therefore equalise **normal retirement dates** by making the **normal retirement date** for all **members** the **member's** 65th birthday, their 60th birthday or some other date. If the **normal retirement date** for all **members** was equalised by making it a **member's** 65th birthday, then **benefits** would be said to be levelled down for female **members**. If the **normal retirement date** were equalised for all **members** by making it a **member's** 60th birthday, then **benefits** would be said to be levelled up for male **members**.*

# L

## Leverage

- The use of borrowed money to increase the investment in a portfolio, which increases risk by magnifying both gains and losses (for example, through the use of **derivatives**).
- The debt / equity ratio on a company's balance sheet.

## Levy

See **General Levy**, **Fraud Compensation Levy**, **Pension Protection Fund Levy** and **PPF Administration Levy**.

## Levy Quantum

The total annual amount of **PPF Levy** which the **Board of the PPF** determines it requires to raise from eligible **pension schemes**.

*Under **PA2004**, the **levy quantum** cannot exceed a maximum amount (termed a **ceiling**) prescribed by the Secretary of State for DWP. In setting the **levy quantum**, the **Board of the PPF** must take into account both the interests of the **members** it protects (the current and prospective recipients of **PPF compensation**) and the interests of the **employers** of eligible **pension schemes** who pay the **PPF Levy**.*

## Levy Scaling Factor

The factor by which the **Board of the PPF** scales up or down the results of calculating the **risk-based levy** payable by eligible **pension schemes** in order to adjust the total amount the **Board of the PPF** estimates it will raise in line with the **levy quantum**.

## Liabilities

Amounts which an **occupational 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.*

*In a scheme **funding** context, the **present value** placed on the outgoings (**benefit** payments and expenses) due after the date to which the calculations relate.*

# *Liability-Driven Investment (LDI)*

Any **investment 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**.

*See also asset and liability matching.*



# Lien

A rule in an **occupational pension scheme** where an **employer** may recover from the scheme any money due to it through criminal, fraudulent or negligent act or omission by the **member**. The recovery may be made from the **member's lump sum benefit** on retirement or on death in service, or from the **member's accrued pension benefit**. **Guaranteed Minimum Pensions (GMPs)** are fully protected and cannot be reduced by the exercise of a **lien**.

*Restrictions on such a rule are contained in sections 91 – 95 **PA1995** (as modified by The OPS (Assignment, Forfeiture, Bankruptcy etc.) Regulations 1997 and The OPS (Assignment, Forfeiture, Bankruptcy etc.) (Amendment) Regulations 2011).*

*Where the debt does not result from fraud or negligence it may be recovered from any **benefit** not subject to **preservation** requirements. The **employer's** right of recovery from the scheme must be expressly limited so that the amount payable does not exceed the actual loss sustained.*

*The amount recoverable must not exceed the employee's interest in the scheme. In the event of a dispute as to the amount, the **employer** is not entitled to enforce recovery until after the obligation has become legally enforceable.*

# LI

## Life Assurance Scheme

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

## Life Cover Lump Sum

A death **benefit** that may be paid typically from a **defined benefit scheme** if certain conditions are met.

*It can only be paid on the death of a **member** after age 75 where the **member** had a right under the **scheme rules** to such a lump sum at 5 April 2006, for example, a funeral grant. Where the **lump sum** (or the aggregate of **lump sums** where more than one) exceeds £2,500, the **member** has to have been in receipt of **benefits** under the scheme on 5 April 2006.*

## Lifestyling

An asset **allocation** strategy used 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.*

## Lifetime Allowance (LTA)

The **Lifetime Allowance** is an overall ceiling on the amount of tax-privileged savings that any one individual can take from all pension **arrangements**. The exact figure will be whatever the **standard Lifetime Allowance** for the tax year concerned is and may be a multiple of this figure where a **member** has been granted **LTA** protection.

## Lifetime Allowance Charge

A charge to income tax that arises on any **chargeable amount** generated at a **benefit crystallisation event** (**BCE**).

*The rate of charge is either 25% if the **BCE** is payment of a pension or 55% if the **BCE** payment is a **lump sum**. The **scheme administrator** and **member** are jointly liable for the charges, except where the **chargeable amount** arises following the death of the **member**. In that case, it is the recipient of the payment giving rise to the charge that is solely liable to the **LTA charge**.*

## Lifetime Allowance Enhancement Factor

A factor applied to the **standard Lifetime Allowance** where a **member** is entitled to a higher rate.

A **lifetime allowance enhancement factor** might be applied where:

- the **member** has **Primary Protection**
- the **member** spends time overseas or has a transfer from an overseas scheme (an international enhancement)
- there is a **pension credit**.

# L

## **Lifetime Allowance Excess Lump Sum**

A **lump sum benefit** paid to a **member** of a **registered pension scheme** who is aged under 75 because they have used up their available **Lifetime Allowance** and which meets the conditions of paragraph 11 of Schedule 29 to the **FA2004**.

## **Lifetime Annuity**

An **annuity** contract purchased under a **defined contribution scheme** from an insurance company of the **member's** choosing that provides the **member** with an income for life and which meets the conditions imposed through paragraph 3 Schedule 28 **FA2004**.

## **Limited Company**

In investment terms, a legal structure for a **pooled fund** under which the investors' liability for the debts of the fund is limited to the value of their **investment** (and which may be used instead of other available structures such as **limited partnerships** and **unit trusts**).

*See also **open-ended investment company**.*

## **Limited Partner**

In investment terms, an investor in a **pooled fund** structured as a **limited partnership** whose liability for the debts of the fund is limited to the value of their **investment**.

## **Limited Partnership**

In investment terms, a legal structure for a **pooled fund** under which the investors' liability for the debts of the fund is limited to the value of their **investment** (and which may be used instead of other available structures such as **OEICs** and **unit trusts**).

*Generally used for **private equity funds**.*

## **Limited Partnership Agreement**

In investment terms, the legal document that governs a **pooled fund** established as a **limited partnership**.

## **Limited Price Indexation (LPI)**

The requirement under sections 51 – 54 **PA1995** to increase pensions in payment under a **defined benefit scheme** in respect of service after 5 April 1997.

## **Linked Qualifying Service**

Defined in section 179(1) **PSA1993**, it is relevant where a scheme has accepted a **transfer payment**.

*It denotes **qualifying service** under a transferring scheme which has been added to the **qualifying service** in the scheme receiving the **transfer payment**.*

# L

## Listed Change

A change affecting either an **occupational pension scheme** or a **personal pension scheme** in respect of which an **employer** is required to consult with **active members** or **prospective members** before the change is implemented.

*See regulations 8 and 9 of the Occupational and Personal Pension Schemes (Consultation by Employers and Miscellaneous Amendment) Regulations 2006 for a list of all of the changes that necessitate consultation.*

## Long Service Benefit

Under the **preservation** requirements of **PSA1993**, the **benefit** payable at **normal pension age** with which a **short service benefit** must be compared.

## Long-Term Funding Target

The level of scheme **funding** which a **pension scheme** is aiming to achieve in the longer term which may differ to the current **technical provisions**.

*Typical long-term targets might be to hold sufficient assets to run on the scheme without additional **employer contributions** (self-sufficiency) or to be able to secure the **liabilities** with an insurance company (buy out).*

## Longevity Risk

The risk of **members** living longer than expected (thus increasing a **pension scheme's liabilities**).

## Longevity Swap

A means of enabling **pension schemes** to transfer **longevity risk** to a third party (the **counterparty**) whilst retaining control of the assets.

*There are two main types of **longevity swap**: a bespoke **longevity swap**, based on the membership profile of the scheme, and an index-based **longevity swap**.*

## Lower Earnings Limit

The minimum amount that must be earned in a pay period to formerly qualify for a **basic State pension**.

## Lump Sum

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

# Mm

## **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.

## **Market Value**

The amount for which something can be sold on a given market.

## **Market Value Adjustment (MVA)**

An adjustment which may be applied when a policy is surrendered, or money withdrawn, in order to reflect the **market value**.

*MVAs generally take the form of a charge levied on investors who withdraw some, or all, of their money from a with-profits policy before the policy has reached the end of its term. The **MVA** reflects the difference between the policy value and the actual value of the **investments** underlying the with-profits fund.*

*Firms use **MVAs** to try to ensure that policyholders who cash in some, or all, of their with-profits investment early do not disadvantage the remaining policyholders.*

## **Markets in Financial Instruments Directive (MiFID)**

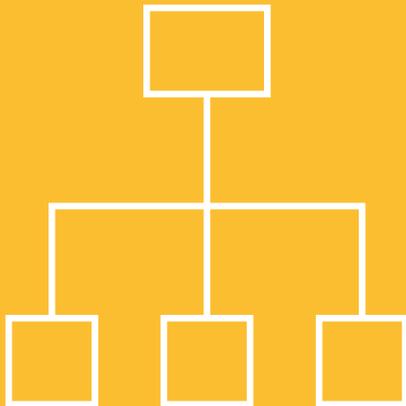
An EU Directive which aims to harmonise financial markets across the EU to create a consistent approach to the regulation of financial markets.

*In the UK, the **Financial Conduct Authority** 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.*

## **Master Trust Authorisation**

A process by which a **DC master trust** that is used by two or more unconnected **employers** is assessed by **The Pensions Regulator** as being of an appropriate standard to operate in the UK market. The authorisation process covers areas such as governance, systems, processes and financial backing by the **scheme funder**.

# Master Trust



A multi-employer **occupational trust**-based **pension scheme**, excluding relevant public service schemes, where each **employer** has its own section within the **master trust** arrangement.

There is one legal **trust** and therefore one trustee board. The **trustee** retains decision making independence for each section, for example on **investment** and service providers, under a trust-wide governance structure. A **master trust** offers **employers** the benefit of a governance function but with generally low operating costs and greater simplicity and convenience than a single employer scheme.

See *PSA2017* and *DC master trust*.

# Mm

## **Material Detriment Test**

A test that is applied by **TPR** as part of its decision making process when deciding whether to issue a **contribution notice**. The test is met if **TPR** is of the opinion that an act or failure to act has detrimentally affected in a material way the likelihood of **accrued benefits** being received by or in respect of **members** of a **defined benefit scheme**.

See section 38A **PA2004**.

## **Maternity Equality Rule**

Every **occupational pension scheme** will be treated as if it contains a **maternity equality rule**. Essentially, this requires a woman on maternity leave to be treated in the same way as if she was working normally with respect to scheme membership, accrual and **benefits**.

*The relevant statutory provision is section 75 of the **Equality Act 2010** and replaces the previous provisions on “unfair maternity provisions” in paragraph 5 of Schedule 5 to the **Social Security Act 1989** and replicates aspects of regulations 9 and 18A of the **Maternity and Parental Leave etc. Regulations 1999**.*

## **Mature Scheme**

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

## **Member**

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

Sometimes narrowly used to refer only to an **active member**.

*The definition of **member** depends on its context as **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 section 242 **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 section 241 **PA2004** and the **MNT Regulations**. Further details are set out in a **TPR Code of Practice** no. 8.

## **Member’s Normal Contributions**

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

# Mm

## **Membership Reconciliation**

The reconciliation of changes in **member** status against membership records over a defined period of time, generally used to confirm the propriety of **member** records through agreement of membership numbers and status against the records.

*It is commonly used to identify the membership movements over a defined period or at a point in time.*

## **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 provisions are section 243 and schedule 33 **FA2004**.

## **Mirror Image Schemes**

Those public sector and quasi-public sector schemes which state that they provide **benefits** based on an existing major **public sector scheme** (usually the Principal Civil Service Pension Scheme) so that if and when the major **public sector scheme** changes, they also change by analogy, without a scheme-specific amendment.

## **Mixed Benefit Scheme**

*See **hybrid scheme** (the first definition thereof).*

## **MNT Regulations**

The Occupational Pension Schemes (Member nominated Trustees and Directors) Regulations 2006 (SI 2006/714) made under sections 241 – 243 **PA2004** which deal with **member-nominated trustees** and **member-nominated directors**.

## **Modification Order**

An order by **The Pensions Regulator** under sections 69 to section 72 **PA1995** modifying an **occupational pension scheme** (e.g. to allow payment of **surplus** to an **employer** following scheme **wind up**) overriding the terms of the scheme.

## **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 And Pensions Service**

The **Money and Pensions Service** provides free and impartial debt advice and guidance on money and pensions, merging the Money Advice Service, **The Pensions Advisory Service** and Pension Wise from January 2019.

# Mm

## **Money Purchase Annual Allowance (MPAA)**

The MPAA operates in conjunction with the **Annual Allowance** when a **member** flexibly accesses their defined contribution pension **benefits** in a prescribed way. If a **member** flexibly accesses **benefits** from a defined contribution pension, for an example taking an **UFPLS**, the amount of tax relieved **contributions** a **member** can pay into a pension **arrangement** reduces. This is known as the **Money Purchase Annual Allowance**.

*Initially set at £10,000 in April 2015, it was reduced to £4,000 with effect from 6 April 2017.*

## **Money Purchase Scheme**

The provision of a **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**.

*An alternative term for **defined contribution scheme**.*

## **Money Purchase Underpin**

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

## **Money-Weighted Return**

An absolute measure of the rate of return earned by the **investments** 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 Provisions**

The provisions in **PA2004** to protect **pension scheme members**, the **PPF** and those paying the **PPF 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. Made up of:

- base table – the assumed rates of mortality before allowing for future improvements (usually based on published tables covering the population or **pension scheme members** such as **SAPS tables**)
- future improvements – how life expectancy predicted by the base table is assumed to improve in future. Often based on **CMI projections**.

*See also **longevity risk**.*

# Mm

## ***Most-Favoured Nation Clause***

A contractual provision under which the **investment manager** agrees not to offer other investors more favourable terms in relation to an **investment** (for example, in relation to fees).

## ***Multi-Employer Scheme***

A **defined benefit scheme** may be sponsored by multiple **employers**, often related through common ownership as a group of companies.

*The scheme however may be run as a single entity with a single **benefit** structure and a single **investment fund**. In these or similar circumstances, sufficient information (for example, each **employer's** share of the single **investment fund**) may not be available to enable an **employer** to use defined benefit accounting. In these circumstances, an entity should account for its participation in the scheme as if it was a **defined contribution scheme**.*

# Nn

## **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 supervises occupational pension schemes and certain personal pension schemes.

## **Net Present Value**

The calculation of **net present value** is a technique for estimating the fair value of an asset or **liability** by estimating the price at which market participants would exchange the right to future cash flows.

*It involves estimating the nominal value of future cash flows (whether receipts or payments), taking account of factors which will impact that nominal value, such as inflation, or events which will terminate the cash flow (death of the payee; insolvency of the payer); then applying a **discount rate** to those future cash flows to bring them to today's value, that is, the price one would accept today to sell the right to those future cash flows, or pay today to buy the right to those future cash flows.*

## **Nominal Value**

The price of a share, **bond**, or stock when it was issued, rather than its current **market value**.

## **Nomination Form**

*See expression of wish form.*

## **Non-Contributory Scheme**

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

## **Non-Discrimination Rule**

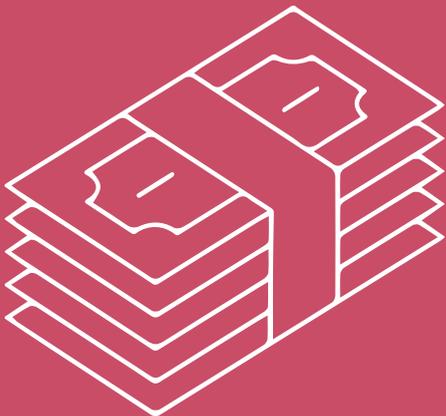
The **non-discrimination rule** prohibits a “responsible person” (the **trustees**, managers or the **employer**) from discriminating against, harassing or victimising a **member** of the scheme. The rule does not apply to **pension credit members**.

*The relevant statutory provision is section 61 of **Equality Act 2010**.*

## **Normal Contributions**

*See **employer normal contributions and member's normal contributions**.*

# Net Pay Arrangement



A way of giving tax relief on **contributions** a **member** makes to their **pension scheme**.

The **employer** takes the **member's contributions** from pay before it is taxed. The **member** therefore only pays tax on their pay net of pension **contributions**. This means the **member** gets full tax relief, whether they pay tax at the basic, higher or additional rate.

This is one way of obtaining tax relief on pension **contributions**; the other is **pension tax relief at source**.

# Nn

## ***Normal Minimum Pension Age (NMPA)***

The earliest date at which pensions and lump sums may normally be taken when they do not constitute **unauthorised payments** under a **registered pension scheme**.

*See section 279(1) FA2004.*

## ***Normal Pension Age (For PPF Compensation Purposes)***

The age specified in the **scheme's rules** as the earliest age at which the pension or **lump sum** becomes payable without actuarial adjustment (disregarding any scheme rule making special provision as to early payment on the grounds of ill health or otherwise).

## ***Normal Pension Age (NPA)***

For preservation purposes under section 180 of the **PSA1993** this is the 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**.

*Sometimes used to mean **NPD, NRA** or **NRD**.*

## ***Normal Pension Date (NPD), Normal Retirement Age (NRA), Normal Retirement Date (NRD)***

The date (usually the date of reaching a particular age) specified in the **scheme 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**.

*See section 69 PA2004 and The Pensions Regulator (Notifiable Events) Regulations 2005 as amended.*

# Oo

## Objective Justification

Under the legislation **indirect discrimination** (and **direct discrimination** on the grounds of age) will be justified if it pursues a legitimate aim and is a proportionate means of achieving that aim.

## Occupational Pension Scheme

A **pension 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 Fund

A **pooled fund** which has been established for an indefinite term. Investors can generally buy and sell units in the fund on an ongoing basis.

*Contrast **closed-ended fund**.*

## Open-Ended Investment Company (OEIC)

A **pooled fund** 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.

*Also called an **investment company with variable capital**.*

## 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.

## Opting In

**Jobholders** who are not automatically enrolled (for example, because they opted out or are aged under 22) can **opt in** by giving their **employers** notice requiring the **employer** to arrange for them to join a **qualifying scheme**. However, they can only do this once in a 12-month period. Low earners can opt into a **pension scheme** too, but are not entitled to receive any **employer contributions**.

*See also **opting out** and **automatic enrolment**.*

## Opting Out

A decision by an employee to leave or not to join an **occupational pension scheme** of the **employer**. In the context of **automatic enrolment**, **jobholders** have a one month “opt-out period” after they have been automatically enrolled.

*It is important that **jobholders** are given all the information about **automatic enrolment** and the **pension scheme**, so they can make an informed decision on whether **opting out** is the right choice for them. If they choose to **opt out**, they will get a refund of any **contributions** they have made.*

*See also **opting in**.*

# 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 purchased 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.*

# Oo

## ***Orphan Liabilities***

**Liabilities** in a **multi-employer defined benefit scheme** attributable to a former **participating employer** that has ceased to participate in the scheme, for example because the **employer** is being wound up, or there has been a change of control or some other form of **employment cessation event** has occurred.

## ***Over The Counter Security (OTC)***

A security that is not listed on any stock exchange and that is therefore traded by buyers and sellers dealing directly with each other.

## ***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 overseas pension scheme**.*

## ***Overseas Transfer Charge (OTC)***

The **overseas transfer charge** is an income tax charge on the amount of a **transfer payment** and applies to all member transfer requests to a qualifying **recognised overseas pension scheme (ROPS)** made on or after 9 March 2017.

*There are certain circumstances where a **member** can be exempt from the charge.*

# Pp

## ***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 term used to describe a scheme which is closed and no further **benefits** accrue.

*The scheme is likely to have members with **preserved benefits**.*

## ***Parent Company Guarantee***

A legally binding guarantee granted by a parent company (for example, the holding company in a group) to a **pension scheme** sponsored by an **employer** (for example, a subsidiary of the holding company) that it will meet some or all of the financial obligations of the **employer** in respect of the **scheme** in the event that the **employer** is unable to do so (due, for example, to insolvency).

## ***Partly Projected Unit Method***

An **accrued benefits funding method** in which the calculated **liability** for **active members** is calculated as for the **Current Unit Method** except that, where earnings are not projected in that method, some but not full allowance is made in the **Partly Projected Unit Method** for the projection of earnings.

## ***Participating Employer***

An **employer** that participates in an **occupational pension scheme** because some or all of its employees are **members**.

## ***Participation Agreement***

See ***deed of participation***.

## ***Passive 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***.

# Pp

## **Passport**

A certificate issued by the Government Actuary's Department (enduring for up to 2 years) confirming that a named private sector **pension scheme** is broadly comparable to a specific **public sector pension scheme**.

## **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**

This is the change in the present value of the **defined benefit obligation** for **members'** service rendered in prior periods, resulting from the introduction of, or changes to, **pension benefits** made in the current period.

## **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 section 87 **PA1995** 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**.

*Some **pension schemes** are exempt from this requirement, including some small schemes, statutory schemes and those guaranteed by the Crown or a public authority.*

## **Pension Commencement Lump Sum (PCLS)**

A **lump sum** paid to a **member** of a **registered pension scheme** in connection with an entitlement to a **pension benefit**, other than a short-term **annuity** contract, and which meets the conditions detailed in paragraphs 1 to 3 of Schedule 29 **FA2004**.

## **Pension Credit**

- An income-related means-tested **benefit** that boosts a **pensioner's State pension** to ensure they have a minimum level of income.
- The **benefits** to which the ex-spouse or former civil partner of a scheme **member** becomes entitled to following a **pension sharing order**.

*See **Welfare Reform and Pensions Act 1999 (WRPA)** and Schedule 10 **FA1999**.*

# Pp

## **Pension Debit**

The amount by which the **member's** pension is reduced following a **pension sharing order** and the **pension credit** being the corresponding amount by which the ex-spouse's or former civil partner's pension rights are increased.

See *Welfare Reform and Pensions Act 1999 (WRPA)* and *Schedule 10 FA1999*.

## **Pension Flexibilities**

The **freedom and choice** reforms to legislation from April 2015 allow greater pension flexibility in how **members of defined contribution pension schemes** and their dependants are able to take their pension savings from age 55.

See *Taxation of Pensions Act 2014*.

## **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 Guarantee**

An arrangement whereby on the early death of a **pensioner**, the **pension scheme** makes further pension payments for the balance of the guarantee period.

The relevant statutory provision is section 165(1) 'Pension rule 2' and paragraphs 2(3)(a) and (6) of Schedule 28 FA2004.

## **Pension Increase**

An increase in a pension in payment.

A **pension increase** may be statutory, formally defined in the **scheme rules** or discretionary. Such an increase may arise as a result of **escalation** or **indexation** of pensions or may be a **discretionary increase**.

## **Pension Increase Exchange (PIE)**

An offer to **members** to exchange future, non-statutory increases, on their pensions for higher non increasing pensions.

## **Pension Input Amount**

The amount that is tested against the **Annual Allowance** for the **pension input period**. In assessing whether a **member** 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**.

See sections 229 – 237 FA2004.

# Pp

## **Pension Input Period (PIP)**

The period over which the **pension input amount** is calculated.

*From 6 April 2016 **pension input periods** are aligned with tax years. See section 238 FA2004.*

## **Pension Protection Fund (PPF)**

The statutory fund established to pay **PPF compensation to members** in respect of their defined **benefits** under an eligible **occupational pension scheme** when there is a **qualifying insolvency event** in relation to the **employer** and where there are insufficient assets in the **pension scheme** to secure **PPF compensation** levels.

*The **PPF** was established under **PA 2004** and became operational from 6 April 2005.*

## **Pension Protection Fund (PPF) Compensation**

**Members** who have already reached **normal pension age** or are in receipt of a survivor's pension or a pension on the grounds of ill health on the **assessment date**:

- are generally compensated to the level of 100% of their current pension in payment on the **assessment date**

- but only pension in respect of service from 6 April 1997 will increase and
- this increase is in line with an inflation index (at the time of writing, the **Consumer Prices Index**) to a maximum of 2.5% per annum.

For other **members**:

- the compensation level is 90% of their accrued **benefits** on the **assessment date** subject to an overall cap prescribed by legislation
- plus revaluation from the **assessment date** until **normal pension age** and
- **pension increases** in line with an inflation index (at the time of writing, the **Consumer Prices Index**) to a maximum of 2.5% per annum.

## **Pension Protection (PPF) Levy**

- A levy payable by all **occupational pension schemes** eligible for the **PPF**. The **levy** comprises the **risk-based levy** and the **scheme-based levy**.

## **Pension Scam**

An attempt to fraudulently deprive a **member** of their pension savings.

# Pp

## ***Pension Scheme***

An arrangement to provide a **member** with retirement **benefits**. **Pension schemes** often provide death **benefits** and ill-health early retirement **benefits**. Types of **pension schemes** include **occupational pension schemes**, **personal pension schemes**, **stakeholder pension schemes** and FSAVC schemes.

## ***Pension Schemes Registry***

The register of all UK **pension schemes** maintained by **TPR**.

## ***Pension Sharing***

The splitting of a **member's benefits** under a **pension scheme** between the scheme **member** and the ex-spouse. The **member** will receive a **pension debit** and the ex-spouse will either be given a **pension credit** within the scheme or a **transfer payment** as part of the divorce settlement.

*The **benefits** belong to the **member** and ex-spouse separately therefore each can decide when to take their **benefits**, unlike an **earmarking order**.*

*See section 28(1) **WRPA1999** (or the **WRP (NI) Order 1999**).*

## ***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)***

A way of giving tax relief on **contributions** a **member** makes to their **pension scheme**.

A **member** making a **contribution** to their **pension scheme** will get tax relief at the relevant basic rate. The amount paid to the scheme is treated as having had an amount equivalent to basic rate tax deducted. The **scheme administrator** claims the basic rate tax relief from **HMRC** and adds it to the **member's** accrued pension savings. This applies whether or not the **member** pays tax.

*This is one way of obtaining tax relief on pension **contributions**; the other is a **net pay arrangement**.*

## ***Pension Tracing Service***

A service provided by the Department for Work and Pensions allowing **members of pension schemes** to trace lost **pension schemes**.

# Pp

## **Pensionable Earnings/Pay/Salary**

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 which gives an individual the right 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**.

***PSA1993** gives the term a statutory definition for the purposes of the Preservation, Revaluation and Transfer Payment requirements of the Act. **PA1995** gives a further statutory definition.*

## **Pensioner**

A **member** who has a pension in payment from a **pension scheme**.

## **Pensions And Lifetime Savings Association (PLSA)**

The **Pensions and Lifetime Savings Association** (formerly the National Association of Pension Funds) is a trade association for those involved in designing, operating, advising and investing in all aspects of workplace pensions.

## **Pensions Liberation**

*See **pension scam**.*

## **Pensions Research Accountants Group (PRAG)**

**PRAG** is the recognised **SORP**-making body for the financial statements of **pension schemes** in the UK and Ireland.

## **Pensions Savings Statement**

A statement that the **scheme administrator** must provide to the **member** either on request or where the **member's pension input amount** has exceeded the **Annual Allowance** for a tax year in the scheme. The statement must contain information such as the **pension input amount** for the **pension input period** concerned, the **Annual Allowance** for the appropriate tax year and similar information in respect of each of the three tax years immediately preceding the appropriate tax year.

# Pp

## ***Pensions Tax Manual***

The legislation and regulations behind the pension schemes tax regime. This manual replaced the **Registered Pension Schemes Manual** from 2015.

## ***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.

## ***Permitted Investments***

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

## ***Permitted Lump Sum***

A **lump sum** that is an **authorised payment** provided the conditions for payment are met.

## ***Permitted Margin***

The **permitted margin** is the amount by which the **member's** annual pension on the **member's entitlement date** would be greater if it had been increased by whichever of calculation A and calculation B gives the greater amount.

- Calculation A involves increasing that annual amount at the relevant annual percentage rate for the whole of the period from the beginning of the month of the **member's entitlement date** to the end of the month in which the **member** becomes entitled to the pension at the increased rate.
- Calculation B involves increasing that annual amount by the relevant **indexation** percentage.

*See paragraphs 11–12 of Schedule 32 FA2004.*

## ***Permitted Maximum***

The maximum tax relief available to a **member** in a tax year. Defined in the legislation as being the lower of:

- the **available portion** of the **member's lump sum** allowance, and
- the **applicable amount** – this represents 25% of the capital value of the **benefits** coming into payment under the relevant **arrangements** under the scheme generating the **lump sum** payment, but ignoring any disqualifying **pension credit** held and, where a **money purchase arrangement** is involved, ignoring any **drawdown pension** that has already been designated.

*See paragraph 2 Schedule 29 FA2004.*

# Pp

## ***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 the **Perpetuities and Accumulations Act 2009**.*

## ***Personal Lifetime Allowance (PLA)***

The amount of an individual's pre-A Day rights registered with HMRC for protections from the imposition of a **Lifetime Allowance charge**.

## ***Personal Pension Scheme***

A contract-based scheme provided on a **defined contribution** basis. 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**.*

## ***Personal Representative***

*See **legal personal representative**.*

## ***Pooled Fund***

A fund in which a number of investors pool their assets. The assets are managed on a collective basis.

The assets of a **pooled fund** 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 policies**, and **unit trusts**.

*Contrast with **segregated portfolio**.*

## ***Postponed Retirement***

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

## ***PPF 7800 Index***

The **PPF 7800 Index** is an established official statistic which has been published by the **PPF** since 2007. It indicates the latest estimated funding position for the **defined benefit pension schemes** in the **PPF's** eligible universe.

# Pp

## **PPF Administration Levy**

A levy is set by the DWP which funds that part of the **Board of the PPF's** operating expenditure related to the delivery of schemes through the **assessment period**, to the administration of the **Pension Protection levy**, the management of the **Fraud Compensation Fund** and other management overheads.

*Schemes pay an amount per scheme member which varies according to the total size of the scheme. The Pensions Regulator collects this levy on behalf of the DWP and it is invoiced separately to the Pension Protection levy.*

## **PPF Drift**

This is the increase in the protected **liabilities** to the PPF as a result of a delay in a scheme entering a PPF **assessment period**.

## **Practice Note 15 (PN15)**

A practice note to provide guidance on the application of **auditing standards** issued by the **FRC** on the statutory audit of trust-based **occupational pension schemes** established under the Pensions Acts in the UK.

*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.

## **Present Value**

A calculation of the current value of a series of future cash outflows such as projected **benefit** payments derived using the assumed **discount rate**.

## **Preservation**

The granting by a scheme of **preserved benefits** to a **member** leaving **pensionable service** before **NPA** under an **occupational pension scheme**, in particular in accordance with minimum requirements specified by **PSA1993**.

## **Preserved Benefit**

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

## **Primary Protection**

Until 5 April 2009 **members** with accrued retirement **benefits** of more than £1.5m at 5 April 2006 were able to apply for **Primary Protection** which allowed a **Lifetime Allowance enhancement factor** to reflect the extent to which the **member's** accrued **retirement benefits** at 5 April 2006 exceeded the £1.5m **standard Lifetime Allowance** for 2006/07.

# Pp

## **Principal Employer**

Commonly used in scheme documentation for the particular **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 **pension scheme** or its successor in business.*

## **Principles For Responsible Investment (PRI)**

A set of principles issued by the United Nations concerning **ESG** and responsible investment.

*Formerly known as UNPRI.*

## **Priority Liabilities**

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

## **Priority Rule**

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

*Section 73 **PA1995** introduced an overriding statutory order of priorities for a pension scheme which started to wind up after 5 April 1997. This was overridden by **PA2004** with effect from 6 April 2005 following the introduction of the **PPF**.*

## **Private Debt**

A method of investment whereby the investor lends money directly to the borrower without the use of an intermediary such as a broker. Also known as direct lending.

*Contrast with **bonds**.*

## **Private Equity**

The equity financing of unquoted companies at the various stages in the life of a company, from start-up and expansion (**venture capital**) to management buy-outs (MBOs) or management buy-ins (MBIs) of established companies.

## **Private Placement Memorandum (PPM)**

*See **prospectus**.*

# Pp

## **Professional Trustee**

There is no definition in legislation, but according to TPR's professional trustee description policy, a **professional trustee** is a person who carries out a business of acting as a **trustee**, either individually or as a director of a **corporate trustee**. An individual who acts as a **trustee** of a **pension scheme** with which he is connected (for example, through current or former employment or scheme membership) is likely to be exempt from TPR's definition. An individual who acts as **trustee** of more than one unconnected **pension scheme** is likely to be considered a **professional trustee** by TPR, whether or not the individual receives remuneration.

## **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 section 3 or section 3A of the PA1995 prohibiting a person or a company from acting as a **trustee** of any **occupational pension scheme** to which the order applies.

## **Projected Unit Method**

A **funding method** in which the calculation of **liabilities** makes allowance for projected earnings. The **future service contribution rate** is that necessary to cover the cost of all **benefits** which will accrue in the year (or other specified **control period**) following the valuation date by reference to projected earnings throughout their future working lifetimes.

## **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**.

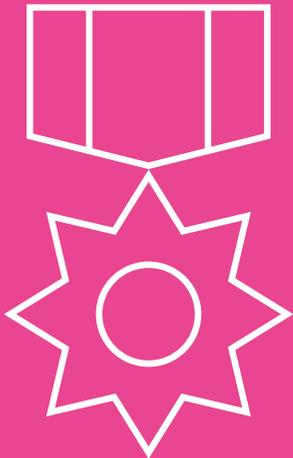
*This is given a wider meaning in the **Disclosure Regulations**.*

## **Prospective Service**

The length of potential future **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**.*

# *Professional Trustee Standards*



Standards published for accredited **professional trustees**. These include requirements relating to fitness and propriety, governance skills, ongoing professional development and managing conflicts of interest.

# Pp

## Prospectus

A disclosure document issued to prospective investors in an **investment fund** which contains important information about matters relating to the fund, including fees, investment strategy and risks.

*Also known as a **private placement memorandum**.*

## Protected Liabilities

This is the estimated cost of securing **benefits** for the **member** equal to the amount of the **PPF compensation** they would receive by the purchase of **annuities** from an insurance company, plus the estimated costs of **winding-up** the scheme.

## 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 **pension scheme** in one of the following ways:

- a right which is not money purchase becoming money purchase or being replaced with a money purchase right
- a reduction in the current rate of pension being paid under the **pension scheme**, or
- a modification which is set out in regulations.

*This term is used in connection with section 67 of **PA1995** (as amended by **PA2004**) and the modification can only be made if the **members** give informed consent.*

## Protected Pension Age

A **protected pension age** allows the **member** the right to take their **retirement benefits**, without adverse tax consequences, at an age below the usual **normal minimum pension age**.

## Protected Rights

The **benefits** from a scheme formerly **contracted-out** on a defined contribution basis derived from at least the minimum **contributions** or minimum payments, which were provided in a specified form as a necessary condition for being **contracted-out**.

***Protected rights** ceased to exist from 6 April 2012 on the abolition of **contracting-out** on a defined contribution basis.*

## Prudential Regulation Authority (PRA)

The **Prudential Regulation Authority** became responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms with effect from 1 April 2013.

***PRA** is part of the Bank of England and works together with the **Financial Conduct Authority (FCA)** to carry out the majority of the functions performed by the abolished Financial Services Authority (FSA).*

*See **Financial Services Act 2012**.*

# Pp

## ***Public Sector Pension Scheme***

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.

## ***PUP Member***

A non-active **member** of a **pension scheme** with a **preserved benefit**.

*See **paid up pension** and **paid up benefit**.*

## ***Put Option***

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

# Qg

## ***Qualifying Earnings***

This is the band of gross annual earnings on which **contributions** for the purposes of **automatic enrolment** are calculated. **Qualifying earnings** are a **worker's** salary, wages, overtime, bonuses and commission, as well as statutory sick, maternity, paternity or adoption pay.

*See section 13 of PA2008.*

## ***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 Overseas Pension Scheme***

A **qualifying overseas pension scheme** is an **overseas pension scheme** that meets certain requirements set by HMRC. A **qualifying overseas pension scheme** must have a beneficial owner and **trustees** and it can receive transfers of UK pension **benefits**. The scheme manager must notify **HMRC** that the scheme is an **overseas pension scheme** and provide evidence to **HMRC** where required. The scheme manager must also sign an undertaking to inform **HMRC** if the scheme ceases to be an **overseas pension scheme** and comply with any prescribed **benefit crystallisation** information requirements imposed on the scheme manager by **HMRC**. The **overseas pension scheme** must not be excluded by **HMRC** from being a **qualifying overseas pension scheme**.

*Formerly known as qualifying recognised overseas pension schemes (QROPS).*

# Qualifying Insolvency Event



An event which meets the requirements set out in **PA2004** legislation and triggers a **PPF assessment period**.

*The relevant statutory provisions are section 121 and section 127 of **PA2004** and Regulation 2.4 of SI 2005/2153 – PPF (Entry Rules) Regulations.*

# Qg

## ***Qualifying Period***

*See waiting period.*

## ***Qualifying Scheme***

A **pension scheme** that meets certain minimum standards prescribed in **PA2008** for the purposes of **automatic enrolment**. There are different quality standards depending on the type of pension scheme.

## ***Qualifying Service***

The period of employment to be taken into account to entitle the **member** to **short service benefit** or a cash transfer sum.

*See also linked qualifying service and section 71(7) PSA1993.*

## ***Quantitative Investment Analysis***

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

*Considerations may include the value of assets, the cost of capital and projected and historical sales.*

## ***Quoted Investments***

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

# Rr

## **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.

## **Recognised Overseas Pension Scheme**

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.

*See also **recognised transfer**.*

## **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 the **trustees** setting out how any **deficit** (on the **statutory funding objective**) revealed by an **actuarial valuation** for a **defined benefit scheme** will be met, and over what period.

*Meeting the **deficit** will generally involve additional **deficit contributions** from the **employer** which will also be shown on the **schedule of contributions**. A **summary of the recovery plan** must be submitted to **The Pensions Regulator**.*

## **Reduced Cash Equivalent Transfer Value**

The **cash equivalent transfer value** which 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.

## **Registered Pension Scheme**

A **pension scheme** is a **registered pension scheme** at any time when, either through having applied for registration and been registered by HMRC, or through acquiring registered status by virtue of being an approved scheme on 5 April 2006, it is registered under chapter 2 part 4 **FA2004**.

## **Registered Pension Scheme Manual (RPSM)**

This was the detailed guidance 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**.

*It has now been replaced by the **Pensions Tax Manual**.*

# Rr

## **Regulated Apportionment Arrangement (RAA)**

This is an arrangement intended for use in corporate restructuring situations where a **participating employer** in a **multi-employer defined benefit pension scheme** stops participating in the scheme. The purpose of the arrangement is to apportion the departing **employer's** share of the **employer debt** that would otherwise be due to the scheme among one or more of the remaining **participating employers**. Certain prescribed conditions must be met, including that the scheme must have entered an **assessment period** or that the **trustees** consider there is a reasonable likelihood the scheme will enter an **assessment period** in the next 12 months. The agreement of **The Pensions Regulator** is also needed.

## **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**

A **related party** is a person or entity that is related to the entity that is preparing its **financial statements**.

*Examples include: the **trustees**, directors of **corporate trustees**, close family of the preceding two examples and any **participating employers**.*

## **Related Party Transactions**

A **related party transaction** is defined in **FRS 102** as a transfer of resources, services or obligations between a reporting entity and a **related party**, regardless of whether a price is charged.

***Pension scheme financial statements** will routinely disclose normal transactions between parties that are related, such as the payment of **contributions** from the **sponsoring employer** to the scheme; or the payments of fees and expenses to **trustees** of the scheme.*

## **Relevant Pensions Advice**

Pensions advice arranged by an **employer** and provided to an employee, former employee or prospective employee. The advice may relate to a specific **pension scheme** or to retirement savings in general. An income tax exemption applies if conditions are satisfied relating to the age of the employee receiving the advice and the availability of the advice across the **employer's** workforce in general.

## **Remeasurement Gains And Losses**

In company accounting, any gains or losses in the scheme's assets or **liabilities** will be recognised in the **Statement of Comprehensive Income** as a remeasurement of the net **defined benefit** asset or **liability**.

*Remeasurement effects include any asset returns which are more or less than the **discount rate**, the effect of any changes in **actuarial assumptions** or where actual experience differs from the assumptions.*

# Rr

## **Report On Actuarial Liabilities**

FRS 102 requires a separate report alongside the **pension scheme financial statements** containing the latest available valuation of **actuarial liabilities** and the **assumptions** and methodology used to calculate them.

*This will normally be based on the latest available **scheme funding valuation** and the information contained in the related **Summary Funding Statement** and **Statement of Funding Principles**. The **SORP** also recommends that the report discloses the value of the scheme's net assets at the date of the **actuarial valuation**.*

## **Reportable Events**

Events that are reportable to HMRC.

These are split into two categories

- reportable changes in the details about the registered pension scheme or its membership numbers, and
- reportable fund movements are payments made by the registered pension scheme.

*See Regulation 3(1) of the Registered Pension Schemes (Provision of Information) Regulations 2006 (as amended).*

## **Reporting Accountant**

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

## **Restoration Order**

An order which may be made by **TPR** 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.*

## **Retirement Annuity Policy**

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 **ICTA1988**.

*These arrangements preceded **personal pension schemes**.*

## **Retirement Benefits**

**Benefits** payable to a **member** of a **pension scheme** on their retirement.

# Rr

## **Retirement Benefits Scheme**

An **occupational pension scheme** for the provision of **benefits** for one or more employees, but which does not include any State **benefits**. Employee includes an ex-employee and an ex-spouse in connection with divorce proceedings.

*The term held a specific meaning under section 611 **Income and Corporation Taxes Act 1988** until 6 April 2006, when the definition was repealed by **FA2004**.*

## **Revaluation**

- The application, particularly to **preserved benefits**, of **indexation**, **escalation** or the awarding of a **discretionary increase**. **PSA1993** imposes a minimum level of **revaluation** in the calculation of **Guaranteed Minimum Pension (GMP)** and of **preserved benefits** other than **GMP**.
- 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.

## **Reversionary Annuity**

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

## **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 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-Based Levy*

*R R r*

One of the two elements of the **PPF levy**, based on the likelihood of a scheme making a claim on the **PPF** and the potential size of that claim. It is calculated by multiplying the scheme's underfunding amount, the **insolvency risk score** of the **sponsoring employer(s)** and the **levy scaling factor**. The scheme's underfunding amount may be reduced by taking into account the value of certain **contingent assets** (for example, **parent company guarantees**) and commitments from the **sponsoring employer** (for example, **deficit reduction contributions**).

# Rr

## ***Risk-Free Rate***

The term used for the **yield** on an **investment** in an asset with a known or certain rate of return.

## ***Risk Premium***

The extra **yield** of an **investment** over the **risk-free rate** required 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. **TPR** expects a risk register to be maintained as part of the requirement for **pension schemes** to have adequate **internal controls** under section 249A and section 249B of the **PA2004**.

## ***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***

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**.



## Safeguarded Benefits

Benefits other than **defined contribution** or **cash balance benefits**.

Not to be confused with safeguarded rights which were abolished from 6 April 2009.

*See section 48 PSA2015.*

## Safeguarded Flexible Benefits

Benefits which fall within the legal definitions of both **safeguarded benefits** and **flexible benefits**.

*These benefits, falling within section 74(c) of the PSA2015, include money purchase benefits with guaranteed annuity rates.*

## Salary Disregard

A form of integration whereby a **member's** salary is reduced for purposes of calculation of a **member's contributions** and **benefits**, usually by an amount related to the level of the **basic State pension** at the time.

## Salary-Related Scheme

A **pension scheme** in which **benefits** are related to earnings.

*It is a type of defined benefit scheme.*

## Salary Sacrifice

An agreement between the **employer** and **member** whereby the **member** forgoes part of their future earnings in return for a corresponding **contribution** by the **employer** to a **pension scheme**.

## SAPS Tables

The standard mortality tables which are typically used for pension scheme valuations published by the UK actuarial profession as part of the Self-Administered Pension Scheme study.

## Schedule 3 Orders

Orders issued each year in accordance with Schedule 3 PSA1993 specifying the rates of increase to be applied to **preserved benefits** over the period from the date of leaving to **NPD**.

*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**.

*Required for defined benefit schemes subject to section 227 PA2004 and the Occupational Pension Schemes (Scheme Funding) Regulations 2005 (SI 2005/3377).*



### ***Scheme Actuary***

The named **actuary** appointed by the **trustees** or managers of an **occupational pension scheme** under section 47 PA1995.

*The **scheme actuary's** role includes conducting an **actuarial valuation** and advising on drawing up the **Statement of Funding Principles** and the choice of appropriate **assumptions**.*

### ***Scheme Administration Employer Payment***

Payments made:

- by a **registered pension scheme** that is an **occupational pension scheme**
- to or in respect of a **sponsoring employer** or a former **sponsoring employer**
- for the purposes of administration or management of the scheme.

### ***Scheme Administration Member Payment***

Payments made by a **registered pension scheme** to or in respect of a **member** or a former **member**, for the purposes of administration or management of the scheme.

### ***Scheme Administration Regulations***

Regulations issued under PA1995 providing for the appointment of professional advisers and the requirement to maintain books and records.

*The main regulation is the **Occupational Pension Schemes (Scheme Administration) Regulations 1996**.*

### ***Scheme Administrator***

*See definition of **administrator**.*

### ***Scheme Apportionment Arrangement***

An arrangement under the rules of a **multi-employer defined benefit scheme** which allows a departing **employer** to pay less than its full **section 75 debt** when it leaves the scheme. The balance of the departing **employer's** liability is apportioned to one or more of the remaining **employers**. Certain conditions apply, including that the funding test set out in Regulation 2(4A) of the Occupational Pension Schemes (Employer Debt) Regulations 2005 must be met.

*See **Regulation 6B** of the **Occupational Pension Schemes (Employer Debt) Regulations 2005**.*

### ***Scheme Assets***

This is the **fair value** at the accounting date of the assets of the scheme out of which **benefits** are to be settled.



### ***Scheme Auditor***

The **auditor** appointed by the **trustees** or managers of an **occupational pension scheme** under section 47 PA1995 to report on the scheme **financial statements** and the **summary of contributions**.

### ***Scheme-Based Levy***

One of the two elements of the **PPF levy**, based on a scheme's **liabilities to members** on a **section 179** basis multiplied by a prescribed multiplier. All schemes pay the **scheme-based levy**, irrespective of their funding position.

### ***Scheme Chargeable Payment***

Any **unauthorised payment** made by the **pension scheme** except one that is specified in the legislation as being exempt.

*A payment that the scheme is treated as having made because of unauthorised borrowing is also classed as a **scheme chargeable payment**.*

*See section 241(2) **Finance Act 2004**.*

### ***Scheme Funder***

An entity which provides financial support to enable a **master trust** to carry out its duties. The **scheme funder** may also be entitled to receive profits from the **master trust**.

### ***Scheme Funding Report***

A written report prepared and signed by the **scheme actuary** reporting the outcome of a **scheme funding valuation**.

*See also **actuarial valuation**.*

### ***Scheme Funding Regulations***

Regulations, primarily issued under **PA2004**, requiring **pension schemes** to hold sufficient and appropriate assets to cover the scheme's **technical provisions**. Other requirements are that the scheme maintain a statement of their policy for securing that the **statutory funding objective** is met, provisions that a scheme adopt a **recovery plan** where indicated by the **actuarial valuation**, and provisions that the **trustee** maintain a **schedule of contributions**.

*The main regulation is the **Occupational Pension Schemes (Scheme Funding) Regulations 2005 (SI 2005/3377)**.*

# *Scheme Pays*



If a **member** has an **Annual Allowance charge** of more than £2,000 (or such higher amount set by Treasury Order) they have the right to give notice to the **scheme administrator** for the tax charge to be paid from their pension **benefits**. This is called **Scheme Pays**. It applies in relation to tax years 2011/12 onwards and is connected to the reduction in the **Annual Allowance** for that tax year.



## Scheme Funding Valuation

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

*Under the requirements introduced by **PA2004**, 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 section 224 **PA2004** and the **Occupational Pension Schemes (Scheme Funding) Regulations 2005 (SI 2005/3377)**.*

*See also **actuarial valuation**.*

## Scheme Pension

A pension entitlement provided to a **member** of a **registered pension scheme**. The entitlement is to a lifetime pension under the scheme that cannot be reduced year on year (except in narrowly defined circumstances) and meets the conditions laid down in paragraph 2 of Schedule 28 to **FA2004**.

## Scheme Reconciliation Service (SRS)

The **SRS** helps **pension scheme administrators** reconcile their membership and **Guaranteed Minimum Pension (GMP)** data against the records held by **HMRC**. **SRS** provides a list of **contracted-out** periods and **GMP** data for **members of defined benefit schemes** who have left contracted-out employment.

## Scheme Return

Information submitted to **The Pensions Regulator** by schemes 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** and submit it through **Exchange**.*

*See **PA2004**.*

## 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, or by legislation.

## Scheme Sanction Charge

The charge payable by the **administrator** if the scheme has made one or more **scheme chargeable payments**. The level of the charge is 40%.

*See also **unauthorised employer and member payments**.*



### ***Scheme-Specific Data***

A range of data items, additional to **common data**, that the **occupational pension scheme** will require, according to **The Pensions Regulator's** record-keeping guidance, to administer the **occupational pension scheme** correctly.

*Known as **conditional data** before July 2018.*

### ***Scheme-Specific Funding***

The scheme funding regime outlined in part 3 of **PA2004**, which requires the adoption of a funding target (the **technical provisions**) specific to the circumstances of the scheme.

*See **scheme funding valuation**.*

### ***Scheme Without A Substantive Sponsor (SWOSS)***

A scheme that operates without a substantive **sponsoring employer** under the terms of an ongoing governance arrangement.

*In circumstances where a **SWOSS** is liable to pay **PPF levies**, the levies are calculated using a specific **SWOSS** methodology.*

### ***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 set at a period of not less than six and not more than eighteen months in connection with the commencement or wind-up of the scheme, or if the accounting period end date is changed.*

### ***Section 9(2B) Rights***

Rights to **benefits** (other than **benefits** from **AVCs**) under a **COSR** which were attributable to **contracted out** employment between 6 April 1997 and 5 April 2016. Also known as Post-'97 **COSR Rights**. They derived from section 9(2B) of **PSA1993**.

*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 section 32 **FA1981** (now repealed). Section 32 policies are now **registered pension schemes** under **FA2004**.*



### **Section 32A Policy**

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

*Introduced by PSA1993.*

### **Section 67**

The section of **PA1995** used to prevent a **pension scheme** from being modified if the changes would adversely affect **members'** rights. It was replaced by a new **section 67** introduced by **PA2004** which makes the exercise of a power to make a regulated modification voidable unless certain conditions are met. The conditions may involve obtaining **members'** consent to the modification or obtaining an actuarial statement that the actuarial value of the rights as a whole will be maintained. **Trustees** are required to approve any proposed modification.

### **Section 70**

The section of **PA2004** which places a duty on those involved in the running of a **pension scheme**, such as the **trustee**, the **scheme administrator**, the **employer** and the professional advisers to the scheme (including **scheme actuary** and **scheme auditor**), to consider reporting directly to **TPR** breaches of law which affect a **pension scheme**.

*See also **whistle blowing**.*

### **Section 72 Order**

An order issued by **TPR** under section 72 of the **PA2004** which requires the recipient to provide to **TPR** the information or documentation specified.

### **Section 75 Debt**

*See **debt on the employer**.*

### **Section 75 Liabilities**

The **liabilities** of a **defined benefit scheme** calculated on the amount that would be required if all **liabilities** were to be bought out with **annuities**.

*It is the **section 75 liabilities** that will be applicable when an **actuary** calculates a **section 75 debt**.*

### **Section 109 Orders**

Orders issued each year in accordance with section 109 **PSA1993** specifying the rates of increase to be applied to post-1988 **GMPs** in payment.

*Formerly known as section 37A orders (from section 37A of the **SSPA1975**).*

### **Section 120 Notice**

A prescribed notice to the **Board of the PPF** required under section 120 of **PA2004**, to notify the **Board of the PPF** that the **sponsoring employer**



of an **occupational pension scheme** has become insolvent. The notice must be sent by an **insolvency practitioner** within 14 days of the later of the insolvency date, and the date when he or she becomes aware that an insolvent employer has sponsored an **occupational pension scheme**.

### **Section 122 Notice**

Where an insolvency event has occurred in relation to the **employer** of an **occupational pension scheme**, the **insolvency practitioner** must give one of the following prescribed notices to the **Board of the PPF** under section 122 of **PA2004**:

- if he is able to confirm that a scheme rescue is not possible, a notice to that effect (this is termed a scheme failure notice)
- if he is able to confirm that a scheme rescue has occurred, a notice to that effect (this is termed a withdrawal notice) and
- if he is not able to confirm either of the above, a notice to that effect.

The notice must be sent by the **insolvency practitioner** as soon as reasonably practicable.

### **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 section 148 **Social Security Administration Act 1992** specifying the rates of increase to be applied to the earnings factors on which the State **additional pension** and **GMPs** are based.

*This **revaluation** is based on the increase in national average earnings. Formerly known as section 21 orders (from section 21 of the **SSPA1975**).*

### **Section 160 Notice**

The notice given by the **Board of the PPF** to the **trustees** of a scheme under section 160 of **PA2004** at the end of the **assessment period** which has the effect of transferring all the assets and **liabilities** into the **PPF**.

### **Section 179 Valuation**

A valuation to determine the level of a scheme's funding in accordance with section 179 of the **PA2004**. The valuation results for an individual scheme are used to calculate the **PPF levy** for that scheme. The results of the valuation are also combined with the results of the **section 179 valuations** for all other schemes that are eligible for the **PPF** to assess the general level of scheme underfunding. This information is used to set the **levy quantum** and the **levy scaling factor**.



### **Section 251 Resolution**

A trustee resolution passed under section 251 of the PA2004 to preserve a power in a pension scheme's trust deed and scheme rules for trustees to be able to pay surplus funds to a participating employer.

### **Securities Lending**

The transfer of securities (such as shares or bonds) to a third party (the borrower), in return for remuneration. The borrower will give the lender collateral in the form of shares, bonds or cash. The borrower pays the lender a fee for the loan and is contractually obliged to return the securities on demand within the standard market settlement period.

### **Segregated Portfolio**

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

*Also called a managed account.*

*Contrast with pooled fund.*

### **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.*

*See also personal pension scheme.*

### **Self-Investment**

*See employer-related investment.*

### **Self-Sufficiency**

A measure of scheme funding that would allow a scheme to run on in the long term, paying benefits when they are due, without further reliance on the sponsoring employer, and with a low-risk investment strategy.

# Ss

The term is not uniquely defined and so in practice can refer to a wide range of different **funding and investment strategies**. These range from strategies that continue to contain a degree of risk and therefore the possibility of further sponsor support being needed in practice, to low-risk strategies with explicit additional buffers to protect against adverse experience.

See also **long-term funding target**.

## Sensitivity Analysis

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

## Serious Ill-Health

Where a **scheme administrator** has received written evidence from a registered medical practitioner confirming that the **member** has a life expectancy of less than one year.

*Full commutation of **benefits** by payment of a **serious ill-health lump sum** is permitted, subject to **scheme rules**.*

## Serious Ill-Health Lump Sum

The payment of **benefits** to a **member** as a one-off **lump sum** on the grounds of **serious ill-health** if a **member** is expected to live for less than one year, subject to the **scheme rules**.

This is payable at the discretion of the **trustees** and is subject to certain conditions being met as set out in legislation. The **member** must also have available **Lifetime Allowance** in order for a **serious ill-health lump sum** to be paid. The value of the **serious ill-health lump sum** is paid tax free unless the **Lifetime Allowance charge** is payable. The **lump sum** payment would be included in the **member's** estate in the event of their death.

See section 166 and Schedule 29 **FA2004**.

## Service Credit

A period of **pensionable service** credited to a **member** in a **defined benefit scheme** in lieu of a **transfer payment** received from another pension **arrangement**, an earlier scheme or **employer** payment if **benefits** are to be augmented subject to the **scheme rules**. The **service credit** may be more or less than the number of years' **pensionable service** under the earlier or transferring scheme.

## Service Level Agreement

A contract between a service provider and a client which defines the precise level of service to be provided under the contract and will give examples which will include expected timescales. It will also detail action that will be taken if the requirements of the Service Level Agreement are not met.



## Settlement

- 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.
- 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**.

## Sex Equality Rule

The requirement that every **occupational pension scheme** shall have a **sex equality rule** read into it so that men and women are treated as favourably as comparable **members** of the opposite sex in relation to both the terms on which they are permitted to join the **pension scheme**, and to the terms on which they are treated once they have become **pension scheme members**.

*The relevant statutory provision is section 67 of the **Equality Act 2010** which replaced equivalent equal treatment provisions in section 62 of **PA1995**.*

## Shareable Rights

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

## Sharia Fund

**Pooled fund** which complies with principles of Islamic Sharia law.

## Short Service Benefit (SSB)

The **benefit** which must be provided for an **early leaver** under the **preservation** requirements of **PSA1993**.

## Short Service Refund Lump Sum

The term for a refund of **member contributions** on leaving a **registered pension scheme**.

*See paragraph 5 Schedule 29 **FA2004**.*

## Side Letter

A document that is ancillary to a contract.

*In investment terms it may refer to a contractual agreement between a **pooled fund** and a single investor in the fund that modifies the terms of the legal documents governing the fund.*

## 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.



## Single Tier State Pension

The **Single Tier State Pension** is a flat rate pension with no earnings-related element and replaced both the **basic State pension** and the **State Second Pension (S2P)** with effect from 6 April 2016. The ability to **contract out** on a **defined benefit basis** ended as a consequence of this change.

## Small Lump Sum

A type of **authorised payment** made on or after 1 December 2009.

A **small lump sum** is:

- a maximum payment of £10,000 from each **pension scheme**
- not subject to the **HMRC** 20 times pension trivial commutation eligibility test
- tax treatment is as a **trivial commutation lump sum** – 25% tax free and paid through PAYE
- if paid after the death of the member, treated as a **trivial commutation lump sum** death benefit paid to the recipient and fully taxable under PAYE
- **trustees** do not need to take into account **benefits** from other pension arrangements
- **trustees** do not have to offer a **scheme pension** alternative (unlike **trivial commutation lump sums**).

*It is alternatively called a scheme-specific **lump sum**.*

*See part 2 of the Authorised Payments Regulations 2009.*

## Small Self-Administered Scheme (SSAS)

A trust-based small **occupational pension scheme** which allowed **members** to direct the investments. These schemes were used by **employers** to provide **pension benefits** for a small number of directors or senior staff and could include family members. **HMRC** imposed special restrictions in order for a **SSAS** to become an **approved scheme**.

*From 6 April 2006, a **SSAS** counts as a **registered pension scheme** but special provisions exist in legislation for schemes with fewer than 12 **members**.*

## Smart Beta

An investment approach that aims to offer benefits of both **passive management** and **active management**.

## Social Impact Investment

An investment approach that aims to make a beneficial impact on society as well as achieving a positive investment return.



## ***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.

The **statement of investment principles** must include a reference to the extent to which **SRI** has been considered.

## ***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 **Scheme Funding Regulations**.

*See also **buy out**.*

## ***Special Purpose Vehicle***

A legal entity, commonly a **limited company** but which may be a **limited partnership**, usually created to isolate an entity from a specific risk.

*They are often created through the transfer of assets which are to be used for a specific purpose, for example the generation of an income stream for the benefit of a **pension scheme**, or as security against a scheme **deficit**.*

## ***Sponsoring Employer***

The **principal employer** and **participating employers** in a **pension scheme**.

## ***Staging Date***

The first date from which an **employer** must have automatically enrolled all their **eligible jobholders** into a **qualifying scheme**.

*See also **automatic enrolment**.*

## ***Stakeholder Pension Scheme***

A **stakeholder scheme** is a **money purchase scheme**, either contract based or **trust-based**, which satisfied standards required under the **Welfare Reform and Pensions Act 1999**.

*Due to the introduction of **automatic enrolment**, the requirement on an **employer** to designate a **stakeholder pension scheme** was abolished with effect from 1 October 2012. Existing stakeholder schemes can continue to operate.*

## ***Stand-Alone Lump Sum***

A **lump sum benefit** paid as a single **benefit crystallisation event** to a **member** (aged under 75) of a **registered pension scheme** that represents all the member's **uncrystallised funds** under the scheme.



See Articles 25 – 25D of Taxation of Pension Schemes (Transitional Provisions) Order 2006 as amended by Taxation on Pension Schemes (Transitional Provisions) (Amendment No. 2) Order 2006.

### **Standard Lifetime Allowance**

This creates a ceiling on the tax-advantaged **benefits** value that can be built up by an individual in all schemes excluding any special factors that may increase or decrease the ceiling.

See also *Lifetime Allowance*.

### **State Earnings Related Pension Scheme (SERPS)**

The **additional pension** provisions of the **State pension scheme**, replaced by **State Second Pension (S2P)** from 6 April 2002 until it was abolished on 6 April 2016 when **Single Tier State Pension** was introduced.

**SERPS** was based on earnings on which standard rate National Insurance contributions were paid.

### **State Pension**

An income paid by the UK Government to those who reach **SPA**. The **State pension** is funded by National Insurance contributions.

Before 6 April 2016 the **State pension** comprised of two components: the **basic State pension** and **S2P**. On 6 April 2016 the **single tier state pension** was introduced.

### **State Pension Age (SPA)**

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

### **State Pension Deferral**

Choosing not to claim **State pension** at **SPA**, in return for extra pension 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**, which is provided for individuals by the Pension Service (which is part of the Department for Work and Pensions).

### **State Pension Offset (Also Called State Pension Disregard)**

A **defined benefit scheme** may take into account the **State pension** that a **member** will receive (or a proportion of it). This is known as a **State pension offset** and, where an offset applies, it will be set out in the **scheme rules**.



## **State Retirement Date**

*See State Pension age.*

## **State Second Pension (S2P)**

The earnings-related top-up to the **basic State pension** which was introduced from 6 April 2002 to replace **SERPS**. **S2P** was abolished on 6 April 2016 when the **single tier state pension** was introduced.

## **Statement Of Comprehensive Income**

One of the primary statements in company **financial statements** in which **remeasurement gains and losses** are disclosed in accordance with **FRS 102** and **IAS 19**.

## **Statement Of Funding Principles (SFP)**

A written statement setting out, for a **defined benefit scheme**, the **trustees'** policy for meeting the **statutory funding objective**. It records the decisions as to the basis for calculating the scheme's **technical provisions** and the method by which any **deficit** is to be remedied.

*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**.

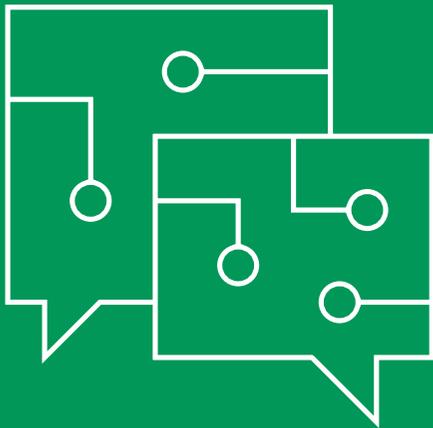
*See also section 35 PA1995.*

## **Statement Of Net Assets (Available For Benefits)**

A **financial statement** included in a scheme's annual **accounts** which gives details at the end of the **scheme year** of the scheme's assets, suitably classified, and **liabilities** other than the **liabilities** to pay pensions and **benefits** after the end of that **scheme year**.

*The statement of net assets is required by the Audited Accounts Regulations and FRS 102, and is described in the Pension Schemes SORP.*

# Statements of Recommended Practice (SORPs)



SORPs are sector-driven recommendations on accounting practices for specialised industries or sectors which supplement **accounting standards** and other legal and regulatory requirements in the light of the special factors prevailing or transactions undertaken in that particular industry or sector that are not addressed in **accounting standards**.

*SORPs may only be issued by SORP-making bodies. A SORP-making body is a body that has been recognised by the FRC for the purpose of producing the SORP for a particular industry or sector.*

*The recognised SORP-making body for the pension scheme sector is the Pensions Research Accountants Group (PRAG).*



## Statutory Auditor

See *scheme auditor*.

## Statutory Discharge

The discharge provided in respect of a **member** who exercises the statutory right to a **cash equivalent transfer value** under section 99 **PSA1993**.

## Statutory Employer

An **employer** that is treated as an **employer** of the **pension scheme** (whether or not it has ceased to be an **employer** under **pension scheme rules**) for statutory purposes, such as the scheme funding provisions set out in part 3 of the **PA2004** and **employer debt** provisions set out in **section 75** of the **PA1995**.

*Assessing whether an **employer** is a **statutory employer** of a **pension scheme** is usually complicated and legal advice is often required.*

## Statutory Funding Objective (SFO)

The 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 Illustration (SMPI)

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

*The **actuarial assumptions** and methods to be used in the calculation of **SMPI** are prescribed in the latest version of Actuarial Standard Technical Memorandum: AS TM1.*

## Statutory Scheme

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

## Stewardship

An active approach to asset-owning with the aim of improving investment performance through engagement with portfolio companies and other **investments**, including exercising voting rights attaching to **investments**.

## 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

See *securities lending*.

## Stock Selection

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

*Stock normally refers to **equity**, but may refer to other financial instruments such as **bonds**.*

## Sub-Custodian

Appointed by a **custodian** to fulfil contractual requirements the **custodian** has with its client.

*For example, a **sub-custodian** could be appointed to handle overseas stock where the appointed **custodian** has no local presence.*

## Subject Access Request (SAR)

Under data protection laws, a data subject such as a **member**, **pensioner**, **pension credit member**, **beneficiary**, etc. has a right to receive a copy of their personal data held on computer and/or paper records by the **data controller**, the **trustees** and, perhaps, the **scheme actuary**. An individual who wants to exercise this right must make a request to the person or organisation that they believe is processing the data and, if necessary, pay the required fee.

## 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 PA1995** (as amended by **PA2004**).*

## Summary Funding Statement (SFS)

A summary of the scheme's funding position.

*It must be issued to all **scheme members** and **beneficiaries** (following each **scheme funding valuation** or **actuarial report** except for small schemes) and is their **primary source of information on funding matters**. Its content is prescribed by **Schedule 4 of the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013**.*

# Ss

## Summary Of Contributions

A statement prepared by or on behalf of 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, in order that this can be reconciled to the total **contributions** included in the **financial statements**.*

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

## Surplus

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

## Suspension Order

An order made by **TPR** under section 4 **PA1995** suspending a person from exercising any functions as a **trustee** of any **occupational pension scheme** to which the order applies.

*See also **prohibition order**.*

## Swap

A type of **derivative** where two parties agree to exchange assets or cash flows over an agreed period.

*Swaps can be based on **equity indices**, **bonds** of different maturities, baskets of securities, individual securities, inflation rates or interest rates. As with other **derivatives**, swaps can be used to gain a desired exposure without trading in the underlying assets.*

## 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.*

# *Tapered Annual Allowance*

A tapered reduction in the amount of the **Annual Allowance** for high-income individuals as defined by the **Finance (No. 2) Act 2015** for the relevant tax year.

The taper reduces a **member's Annual Allowance** by £1 for every £2 that the **member's adjusted income** exceeds £150,000, up to a maximum reduction of £30,000.



# Tt

## **Tactical Asset Allocation**

An **investment strategy** that attempts to exploit short-term market inefficiencies by establishing positions in a range of markets with the objective of profiting from relative movements across those 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 Actuarial Standards (TASs)**

The standards set by the **Board for Actuarial Standards**.

*They are divided into Generic and Specific TASs. The Generic TAS is TAS 100: Principles for Technical Actuarial Work and the Specific TASs include TAS 200: Insurance, TAS 300: Pensions and TAS 400: Funeral plan trusts.*

## **Technical Provisions**

Under the scheme funding provisions of **PA2004**, the amount required in an actuarial calculation to make provision for a **defined benefit scheme's** accrued or past service **liabilities**.

*The calculation uses a method and **assumptions** determined by the **trustees** of the scheme in accordance with the regulations. **Trustees** are required to take a prudent or cautious view of possible events. The method and **assumptions** are set out in the **Statement of Funding Principles**.*

## **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:

- an entity's decision to terminate an employee's employment before the **normal pension date**, or
- an employee's decision to accept voluntary redundancy in exchange for those **benefits**.

## **The Pension Service**

The unit within the Department for Work and Pensions (**DWP**) responsible for administering and paying the **State pension** and **pension credit** (first definition thereof).

# Tt

## *The Pensions Advisory Service (TPAS)*

The TPAS dispute resolution function moved to **The Pensions Ombudsman (PO)** and from 1 January 2019 the other functions of TPAS moved to the **Money and Pensions Service**.

## *The Pensions Ombudsman (PO)*

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.

*Complaints are normally brought by **members, beneficiaries** or **potential beneficiaries** of an **occupational pension scheme** or a **personal pension scheme**, against those responsible for the management of the pension scheme, but **PO's** powers have a wider reach and can include, for example, disputes between **trustees** of different **pension schemes**. **PO** can also consider complaints about the actions and decisions of the **PPF** and about some decisions made by **EAS**.*

## *The Pensions Regulator (TPR)*

The UK regulator of work-based pension schemes.

**PA2004** gives **The Pensions Regulator** a set of specific objectives:

- to protect the **benefits** of **members** of **occupational pension schemes**

- to protect the **benefits** of **members** of **personal pension schemes** where direct payment arrangements are in place
- to promote and improve good understanding of the good administration of work-based **pension schemes**
- to reduce the risk of situations arising that may lead to claims for compensation from the **PPF** and
- in relation to its functions for **DB scheme funding** only, to minimise any adverse impact on the sustainable growth of an **employer**
- to maximise **employer** compliance with **employer** duties (including the requirement to **automatically enrol eligible jobholders** into a qualifying pension provision with a minimum **contribution**) and with certain employment safeguards. **TPR** is also responsible for regulating the governance and administration of **public sector pension schemes**.

## *The Purple Book*

The Pensions Universe Risk Profile (**The Purple Book**) provides comprehensive data on the **PPF's** universe of **defined benefit pension schemes**, predominantly those in the UK private sector. **The Purple Book** is published annually and sets the assumptions of scheme demographics, funding and **asset allocation** for the next 12 months.

# *Time-Weighted Return*



A relative measure of the rate of return earned by the **investments** 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**.*

# Tt

## **Threshold Income**

A **member's** taxable income from all sources less their own gross pension **contributions**.

Taxable income includes:

- salary/ bonuses
- P11D earnings
- interest on savings
- rental income
- dividend payments
- salary sacrificed under **pension schemes** after 8 July 2015 and
- pension income in payment.

## **Total Expense Ratio (TER)**

The **total expense ratio (TER)**, also known as the 'expense ratio', is a way to capture the annual costs associated with running a fund such as a unit trust. Total costs include management fees, trading fees, legal fees, audit costs and other operational expenses.

## **Total Return**

A combination of the change in value of the portfolio and the investment income from the portfolio.

*This is expressed as a percentage of the value of the fund at the start of the period.*

## **Tracker Fund**

A fund which seeks to match investment performance to a particular stock market index.

*See also **indexation**.*

## **Transfer Club**

A group of **employers** and **occupational pension schemes** that have agreed to a common basis for **transfer payments**. The **transfer club** covers mainly **public sector pension schemes**.

## **Transfer Incentive Scheme**

A direct cash payment, a **transfer payment** or both offered to encourage **members** to transfer out of a **defined benefit scheme** or to give up rights to non-statutory **pension increases** in retirement.

*See also **enhanced transfer value**.*

# Tt

## **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 **PSA1993**.*

*See also **cash equivalent transfer value (CETV)**.*

## **Transfer Value**

The amount of the **transfer payment**.

## **Transition Management Agreement (TMA)**

The contract between a **transition manager** and the **trustees** setting out the terms on which the assets will be transitioned.

## **Transition Manager**

A manager whose specific role is to control the transfer of assets between **investment managers** or **custodians** whilst aiming to minimise direct and indirect costs.

## **Transitional Protection**

A facility to preserve certain rights that existed before a particular legislative change occurred. Examples of **transitional protection** that exist on or after 6 April 2006 include **Primary Protection**, **Enhanced Protection**, **Fixed Protection**, protection of an early scheme **minimum pension age** and protection of scheme-specific tax-free cash sums.

*See also **Primary Protection**, **Enhanced Protection** and the various **Fixed Protections**.*

## **Triggering Event**

An issue that arises in the running of a **DC master trust** that potentially means it cannot continue to operate. A **triggering event** must be notified to **The Pensions Regulator**. A **DC master trust** that has a **triggering event** must stop accepting new **participating employers** and cannot enforce changes to **member** charges.

*A **DC master trust** which has a **triggering event** must either resolve the issue which led to the **triggering event** or **wind up** the scheme.*

## **Trivial Commutation Lump Sum**

A lump sum benefit paid to a **member** of a **registered pension scheme** because their pension entitlements under all **pension schemes** are deemed trivial and which meets the conditions of paragraphs 7 to 9 of Schedule 29 **FA2004**.

# Tt

## **Trivial Commutation Lump Sum Benefit**

A **lump sum benefit** paid to a **dependent** of a **member** of a **registered pension scheme** because that **dependent's** entitlement under that scheme is deemed trivial, and which meets the conditions of paragraph 20 of Schedule 29 **FA2004**.

## **True And Fair View**

**True and fair view** means that the **financial statements** are free from material misstatements and fairly represent the financial performance and position of an entity.

*Published accounts of companies and certain other entities are required to show a **true and fair view**. This is usually achieved by complying with the relevant **accounting standards**, but professional judgement is also required. **Auditors** are legally obliged to state, when giving their opinion on the **financial statements**, whether, in their opinion, the accounts give a **true and fair view**. According to the **Audited Accounts Regulations** and the **Pension Schemes SORP**, the accounts of an **occupational pension scheme** should present a **true and fair view**.*

## **Trust**

A legal concept whereby 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**

Mainly, 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 **corporate trustee**.

# Tt

## ***Trustee 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 section 247 to section 249 **PA2004**.*

## ***Trustee Liability Insurance***

An insurance policy purchased by **trustees** (or the **employer** on behalf of the **trustees**) as an external source of protection for the **trustees** and for the **pension scheme** assets.

*Insurance policies can only protect **trustees** to the extent permissible by law and each policy is unique in terms of its cover. It is important for **trustees** to understand the protections available through the **exoneration provisions** and **indemnity provisions** in the **scheme rules** and any exclusions in the insurance policy. It is not mandatory for **trustees** to take out insurance cover but it would be generally expected of **professional trustees**.*

## ***Trustee Toolkit***

A free online learning programme offered by **TPR** containing a series of learning modules and downloadable resources. The **trustee toolkit** is aimed at **trustees of occupational pension schemes** to help them to meet the **TKU** requirements.

## ***Trustees' Report***

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

## ***TUPE***

Transfer of Undertakings Protection of Employment regulations safeguard some employee rights on the transfer of a business.

*The current regulations are the Transfer of Undertakings (Protection of Employment) Regulations 2006.*

# Uu

## ***Unauthorised Employer Payment***

A payment by an **occupational pension scheme** to or in respect of a **sponsoring employer** or a former **sponsoring employer** which is not an **authorised employer payment** or anything which is treated as being an **unauthorised employer payment** to the employer or former employer under part 4 **FA2004**.

## ***Unauthorised Member Payment***

A payment by a **registered pension scheme** to or in respect of a **member** or a former **member** of that **pension scheme** that is not an **authorised member payment** or anything which is treated as being an **unauthorised member payment** to the **member** or former **member** under part 4 **FA2004**.

## ***Unauthorised Payment***

An **unauthorised member payment** or **unauthorised employer payment**.

## ***Unauthorised Payment Charge***

Tax due under on either an **unauthorised member payment** or an **unauthorised employer payment**. The rate of tax is 40% of the **unauthorised payment**.

*See section 208 **FA2004**.*

## ***Unauthorised Payment Surcharge***

Tax that is paid in addition to the **unauthorised payment charge**. The tax will be due where the total of **unauthorised member payment** and **unauthorised employer payment** goes over a set limit in a set period of no more than 12 months. The rate of tax is 15% of the **unauthorised payment**.

*See section 209 **FA2004**.*

## ***Uncrystallised Funds***

Funds held in respect of a **member** in a **defined contribution scheme** that have not been used to provide a **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**.*

*See paragraph 8(3) Schedule 28 **FA2004**.*

# *Uncrystallised Funds Pension Lump Sum (UFPLS)*

*Uu*

A type of authorised lump sum available from 6 April 2015 from a **defined contribution scheme**.

*See paragraph 4A Schedule 29 FA2004 as amended by section 1 and Schedule 1 part 3 paragraph 57 Taxation of Pensions Act 2014.*

# Uu

## ***Uncrystallised Funds Lump Sum Death Benefit***

A **lump sum** paid from a **defined contribution scheme** from any **uncrystallised funds** the **member** held in that scheme at the date of death within two years of the date that the **scheme administrator** knew of the death (or could reasonably be expected to have known of it if earlier). If the **member** was 75 or older at the time of death the two-year limit does not apply to be an **authorised payment**.

*See paragraph 15 Schedule 29 FA2004 as amended by section 3 and Schedule 2 part 2 Paragraph 19(1) (b) Taxation of Pensions Act 2014.*

## ***Underfunding***

Where a pension **arrangement** has assets less than those required to meet its **liabilities**.

*See also deficit.*

## ***Underwriting***

- The analysis of the risk inherent in providing an insurance policy.
- The practice by which flotations of **equities** on the stock exchange are sometimes underwritten by financial institutions.

## ***Unfunded Scheme***

A scheme where assets are not accumulated in advance of the **benefits** being paid.

*See also Pay As You Go.*

## ***Unfunded Unapproved Retirement Benefits Scheme (URBS)***

An unfunded **occupational pension scheme**, not designed to be a **registered pension scheme** established before A Day.

*See also employer financed retirement benefits scheme and unfunded scheme.*

## ***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.

## ***Unit Trust***

A legal structure for a **pooled fund** in which investors subscribe for units, the value of which fluctuates depending on the value of the underlying assets.

*A unit trust is governed by its trust deed.*

# Uu

## ***Unitised Fund***

A **pooled fund** which has been divided into units for the purpose of calculating the value of each investor's holding in the fund.

## ***Unquoted Investments***

Investments which are not listed on a recognised stock exchange.

## ***Unregistered Pension Scheme***

A **pension scheme** that is not a **registered pension scheme**.

# Vu

## ***Valuation Basis***

Used by **actuaries** to mean the **funding method** and/or **actuarial assumptions**.

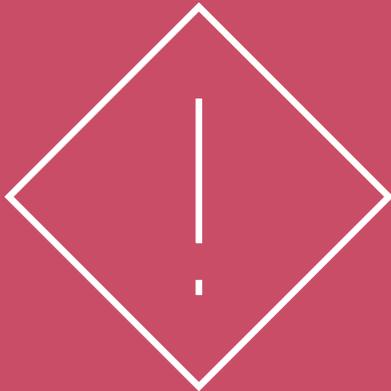
## ***Value For Members***

**Trustees** of **pension schemes** that provide **money purchase benefits** are required to assess the levels of costs and charges borne by **members** and determine whether this represents good value for the service that is provided. **Trustees** need to produce an assessment of **value for members**, which is included in the annual **chair's statement**.

## ***Venture Capital***

The term used to describe a subset of **private equity** covering the seed to expansion stages of investment.

# Value At Risk (VAR)



A measure of the risk of **investments**. It measures the degree of confidence that can be attached to an investment asset or portfolio deteriorating by no more than a specified level over a particular time horizon relative to the expected position.

*For a **defined benefit pension scheme**, a **VAR** calculation might be carried out both in relation to the **pension scheme's** invested assets and to the funding position of the scheme overall.*

# Ww

## Waiting Period

A period of service specified in the **scheme rules** which an employee must serve before being entitled to join a **registered 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 those involved in running **pension schemes** such as **trustees**, **scheme administrators**, **employers** and professional advisers under **section 70 PA2004** (also referred to as “reporting breaches of the law”). A report must be made in writing to **TPR** 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 **TPR**’s functions.

*See also **section 70**.*

## Wholly Insured Scheme

*See **fully insured scheme**.*

## 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 rules** or statute (**section 74 PA1995**).

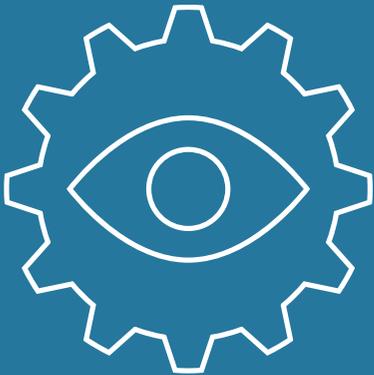
*There are statutory provisions to determine when **winding up** commences for statutory purposes. For schemes which commenced wind-up before 6 April 2005 see Regulation 2, the Occupational Pension Schemes (Winding Up) Regulations 1996 (SI 1996/3126), or wind-up after 6 April 2005 see The Occupational Pension Schemes (Winding up etc.) Regulations 2005 (SI 2005/706).*

*See also **priority rule**.*

## With Profits Policy

An insurance policy under which a share of the surplus disclosed by an **actuarial valuation** of the insurance company’s life and pensions business is payable as an addition to the guaranteed **benefits** or in reduction of future premiums.

# Withdrawal Arrangement



This sets out proposals for the payment of a modified debt usually to permit the cessation **employer** on exit from a **defined benefit multi- employer occupational pension scheme** to pay a lesser amount than the full **section 75 debt**.

*It is a legally binding document setting out payment between the cessation **employer**, the guarantor and the **trustees** which, in certain circumstances, also needs to be approved by **The Pensions Regulator**. Comprehensive guidance is set out on **The Pensions Regulator's website**.*

# Ww

## **Withholding Tax**

The requirement for a person or company making a payment to someone else (for example, an interest payment or a dividend) to withhold part of the payment and pay it to the government.

*The application of withholding taxes is common in many overseas tax jurisdictions, but UK **registered pension schemes** can use **double-taxation treaties** to apply for their overseas investment income to be paid without the application of **withholding tax**, or to claim back some or all of the tax withheld.*

## **Work And Pensions Select Committee**

The **Work and Pensions Select Committee** is a select committee of the House of Commons which conducts enquiries and produces reports. Its remit is to examine the spending, policy and administration of the Department for Work and Pensions (**DWP**).

## **Worker**

In the context of **automatic enrolment**, a person who has a contract of employment, or any other contract where the person undertakes work or services for a party who is not a client or customer of his own business.

*For the full definition, see section 87A of the **PA2008**.*

*See also **jobholder**.*

## **Workplace Pension Scheme**

A broad expression, which captures all types of **pension schemes** offered by an **employer**.

*The term came into use with the introduction of **automatic enrolment** and the **PA2008** and will often (but not exclusively) be used to mean an **employer's automatic enrolment pension scheme**.*



## ***Yield***

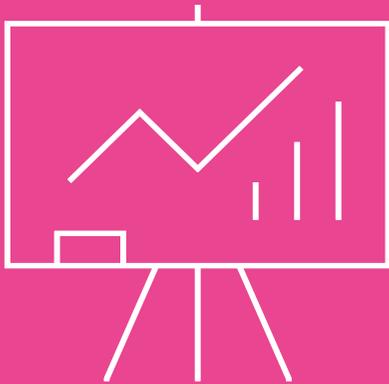
A measure of the annual income earned on an **investment** which is normally expressed as a percentage of its market price.

## ***Yield Gap***

The difference in **yield** between different **asset classes**.

*The most frequently quoted yield gap is that between gilts and equities.*

# Yield Curve



A graphical representation of the relationship between the **yields** of **bonds** over different maturity periods.

# 2

## *21st Century Trusteeship*

A programme launched by **The Pensions Regulator** in 2017 to raise standards of governance in **workplace pension schemes**.

# Appendix:

**AA**

**Annual Allowance**

**AAC**

Audit and Assurance Council of the **FRC**

**AAF**

Audit and Assurance Faculty of **ICAEW**

**ABC**

**Asset-Backed Pension Contribution**

**ABI**

Association of British Insurers

**ACA**

Association of Consulting Actuaries

**ACCA**

Association of Chartered Certified Accountants

**ACT**

Association of Corporate Treasurers

**AE**

**Automatic Enrolment**

**AGM**

Annual General Meeting

**AIF**

Alternative Investment Fund

**AIFM**

Alternative Investment Fund Manager

**AIFMD**

**Alternative Investment Fund Managers Directive**

**AMPS**

Association of Member-Directed Pension Schemes

**APB**

Auditing Practices Board

**APL**

Association of Pension Lawyers

**ASC**

Accounting Standards Codification

**AVCs**

**Additional Voluntary Contributions**

# Aa – Cc

## ***BAS***

Board for Actuarial Standards

## ***BCE***

Benefit Crystallisation Event

## ***BIBA***

British Insurance Brokers Association

## ***BSP***

Basic State Pension

## ***CA***

Companies Act

## ***CA***

Certified Amount

## ***CARE***

Career Average Revalued Earnings scheme

## ***CAS***

Career Average Scheme

## ***CBI***

Confederation of British Industry

## ***CEP***

Contributions Equivalent Premium

## ***CETV***

Cash Equivalent Transfer Value

## ***CGT***

Capital Gains Tax

## ***CIF***

Common Investment Fund

## ***CI***

Chartered Insurance Institute

## ***CIMPS***

Contracted-In Money Purchase Scheme

## ***CJEU***

Court Of Justice Of The European Union

## ***CMI***

Continuous Mortality Investigation

## ***COCIS***

Contracted-Out Contribution/Earnings Information Service

***COEG***

Contracted-Out Employments Group

***COMBS***

Contracted-Out Mixed Benefit Scheme

***COMPS***

Contracted-Out Money Purchase Scheme

***COMPSHP***

Contracted-Out Money Purchase Stakeholder Pension Scheme

***COSOP***

Cabinet Office Statement of Practice

***COSR***

Contracted-Out Salary Related Scheme

***CPA***

Compulsory Purchase Annuity

***CPI***

Consumer Prices Index

***CT***

Corporation Tax

***DB***

Defined Benefit

***DC***

Defined Contributions

***DIS***

Death In Service

***DPA***

Data Protection Authority / Act

***DRA***

Default Retirement Age

***DWP***

Department for Work & Pensions

***EBT***

Employment Benefit Trust

***ECJ***

European Court of Justice

***ECON***

Employer's Contracting- Out Number

# *Ee – Ff*

## ***ED***

Exposure Draft

## ***EFRB***

European Federation for Retirement Provision

## ***EFRBS***

Employer-Financed Retirement Benefit Scheme

## ***EIOPA***

European Insurance and Occupational Pensions Authority

## ***EMIR***

European Market Infrastructure Regulation

## ***EOC***

Equal Opportunities Commission

## ***ERF***

Early Retirement Factor

## ***ERI***

Employer-Related Investment

## ***ESG***

Environmental, Social and Governance

## ***ESOP***

Employee Share Ownership Plan

## ***ETF***

Exchange-Traded Fund

## ***ETV***

Enhanced Transfer Value

## ***EU***

European Union

## ***FA***

Finance Act

## ***FAS***

Financial Accounting Standard; Financial Assistance Scheme

## ***FCA***

Financial Conduct Authority

## ***FCF***

Fraud Compensation Fund

## ***FOS***

Financial Ombudsman Service

# Ff – Gg

## ***FRAG***

Financial Reporting & Accounting Group

## ***FRC***

Financial Reporting Council

## ***FRED***

Financial Reporting Exposure Draft

## ***FRRP***

Financial Reporting Review Panel

## ***FRS***

Financial Reporting Standard

## ***FSA***

Financial Services Authority

## ***FSAVCs***

Free Standing Additional Voluntary Contributions

## ***FDSCR***

Future Service Contribution Rate

## ***FSCS***

Financial Services Compensation Scheme

## ***FSD***

Financial Support Direction

## ***FSSC***

Financial Services Skills Council

## ***FURBS***

Funded Unapproved Retirement Benefits Scheme

## ***FVH***

Fair Value Hierarchy

## ***GAAP***

Generally Accepted Accounting Principles

## ***GAD***

Government Actuary's Department

## ***GDP***

Gross Domestic Product

## ***GDPR***

General Data Protection Regulation

## ***GIP***

Group Income Protection

***GIPS***

**Global Investment Performance Standards**

***GMP***

**Guaranteed Minimum Pension**

***GN***

**Guidance Note**

***GPP***

**Group Personal Pension**

***GTAA***

**Global Tactical Asset Allocation**

***HMRC***

**Her Majesty's Revenue & Customs**

***HMSO***

**Her Majesty's Stationery Office**

***IAASB***

**International Auditing and Assurance Standards**

***IAS***

**International Accounting Standard**

***IASB***

**International Accounting Standard Board**

***ICAEW***

**Institute of Chartered Accountants in England and Wales**

***ICAS***

**Institute of Chartered Accountants of Scotland**

***ICTA***

**Income and Corporation Taxes Act**

***IDRP***

**Internal Dispute Resolution Procedure**

***IEBA***

**International Employee Benefits Association**

***IFA***

**Independent Financial Adviser**

***IFAC***

**International Federation of Accountants**

***IFRS***

**International Financial Reporting Standards**

## *Ii – Ll*

### ***IFS***

Institute of Financial Services

### ***IHT***

Inheritance Tax

### ***IIPM***

Irish Institute of Pension Managers

### ***IMA***

**Investment Management Agreement**

### ***IMA***

Investment Management Association

### ***IPA***

Individual Pension Account

### ***IPP***

Institute of Payroll Professionals

### ***IRP***

**Inflation Risk Premium**

### ***IRPS***

**Investment-Regulated Pension Scheme**

### ***ISA***

**International Standard on Auditing**

### ***ISAE***

**International Standard on Assurance Engagements**

### ***ISDA***

**International Swaps Derivatives Association**

### ***ITT***

Invitation to Tender

### ***LDI***

**Liability-Driven Investment**

### ***LEL***

**Lower Earnings Limit**

### ***LGPS***

Local Government Pension Scheme

### ***LPI***

**Limited Price Indexation**

### ***LPR***

**Legal Personal Representative**

# *Ll – Nn*

## ***LRF***

Late Retirement Factor

## ***LSE***

London Stock Exchange

## ***LTA***

Lifetime Allowance

## ***LTD***

Long-Term Disability

## ***MaPS***

Single Financial Guidance Body; **Money and Pension Service**

## ***MBI***

Management Buy Ins

## ***MBO***

Management Buy Outs

## ***MiFID***

**Markets in Financial Instruments Directive**

## ***MIG***

Minimum Income Guarantee

## ***MIR***

Minimum Income Requirement

## ***MND***

**Member-Nominated Director**

## ***MNT***

**Member-Nominated Trustee**

## ***MPAA***

**Money Purchase Annual Allowance**

## ***MVA***

**Market Value Adjustment**

## ***NAE***

National Average Earnings

## ***NBV***

Net Book Value

## ***NEST***

**National Employment Savings Trust**

# Nn - Pp

## ***NI***

National Insurance

## ***NIC***

National Insurance Contributions

## ***NICO***

National Insurance Contributions Office

## ***NINO***

National Insurance Number

## ***NISPI***

National Insurance Services to Pension Industry

## ***NMPA***

Normal Minimum Pension Age

## ***NPA***

Normal Pension Age

## ***NPD***

Normal Pension Date

## ***NRA***

Normal Retirement Age

## ***NRD***

Normal Retirement Date

## ***NRE***

Net Relevant Earnings

## ***OEIC***

Open-Ended Investment Company

## ***OMO***

Open Market Option

## ***ONS***

Office for National Statistics

## ***OPS***

Occupational Pension Scheme

## ***OTC***

Over the Counter Security; Overseas Transfer Charge

## ***PA***

Pensions Act

## ***PAYE***

Pay As You Earn

***PAYG***

Pay As You Go

***PCLS***

Pension Commencement Lump Sum

***PCSPS***

Principal Civil Service Pension Scheme

***PHI***

Permanent Health Insurance

***PIE***

Pension Increase Exchange

***PIMFA***

Personal Investment Management and Financial Advice Association

***PIP***

Pension Input Period

***PLA***

Personal Lifetime Allowance

***PLRC***

Pensions Law Review Committee

***PLSA***

Pensions and Lifetime Savings Association

***PMI***

The Pensions Management Institute

***PN15***

Practice Note 15

***PO***

Pensions Ombudsman

***PPCC***

Personal Pension Contributions Certificate

***PPF***

Pension Protection Fund

***PPI***

Pensions Policy Institute

***PPM***

Private Placement Memorandum

***PPS***

Personal Pension Scheme

***PRA***

Prudential Regulation Authority

***PRAG***

Pensions Research Accountants Group

***PRI***

Principles For Responsible Investment

***PRP***

Protected Rights Premium

***PSA***

Pension Schemes Act

***PTRAS***

Pension Tax Relief At Source

***PUP***

Paid Up Pension

***QROPS***

Qualifying Recognised Overseas Pension Scheme

***RAA***

Regulated Apportionment Arrangement

***RBS***

Retirement Benefits Scheme

***RAP***

Retirement Annuity Policy (or Premium)

***RDR***

Retail Distribution Review

***REIT***

Real Estate Investment Trust

***ROPS***

Recognised Overseas Pension Scheme

***RPI***

Retail Prices Index

***RPSM***

Registered Pension Scheme Manual

***RPT***

Related Party Transactions

***RSPA***

Raising Standards of Pensions Administration

## ***RSTE***

Raising Standards of Trustee Education

## ***RVF***

Relevant Valuation Factor

## ***S2P***

State Second Pension

## ***SAPS***

Self-Administered Pension Scheme

## ***SAR***

Subject Access Request

## ***SAS***

Self-Administered Scheme

## ***SCON***

Scheme Contracted-Out Number

## ***SDCS***

Simplified Defined Contributions Scheme

## ***SEPC***

Self-Employed Premium Certificate

## ***SERPS***

State Earnings Related Pension Scheme

## ***SFO***

Statutory Funding Objective

## ***SFP***

Statement of Funding Principles

## ***SFS***

Summary Funding Statement

## ***SI***

Statutory Instrument

## ***SIP***

Statement of Investment Principles

## ***SIPP***

Self-Invested Personal Pension

## ***SLA***

Service Level Agreement

## ***SMPI***

Statutory Money Purchase Illustration

***SORP***

**Statement of Recommended Practice**

***SPA***

**State Pension Age**

***SPP***

**Society of Pension Professionals**

***SPV***

**Special Purpose Vehicle**

***SRI***

**Socially Responsible Investment**

***SRS***

**Scheme Reconciliation Service**

***SSAS***

**Small Self-Administered Scheme**

***SSB***

**Short Service Benefit**

***SSP***

**Statutory Sick Pay**

***SSPA***

**Social Security Pensions Act**

***STRGL***

**Statement of Total Recognised Gains and Losses**

***SWOSS***

**Scheme Without a Substantive Sponsor**

***TAA***

**Tactical Asset Allocation**

***TAS***

**Technical Actuarial Standard**

***TCN***

**Third Country National**

***TER***

**Total Expense Ratio**

***TKU***

**Trustee Knowledge and Understanding**

***TMA***

**Transition Management Agreement**

**TPA**

Third Party Administrator

**TPAS**

The Pensions Advisory Service

**TPI**

Tax and Prices Index

**TPO**

The Pensions Ombudsman

**tPR/TPR**

The Pensions Regulator

**TUC**

Trades Union Congress

**TUPE**

Transfer of Undertaking (Protection of Employment) Regulations

**TV**

Transfer Value

**TVAS**

Transfer Value Analysis

**UAP**

Upper Accrual Point

**UEL**

Upper Earnings Limit

**UFPLS**

Uncrystallised Funds Pension Lump Sum

**UK**

United Kingdom

**UURBS**

Unfunded Unapproved Retirement Benefits Scheme

**VAR**

Value At Risk

**VAT**

Value Added Tax

**WGMP**

Widow's/Widower's Guaranteed Minimum Pension

**WRPA**

Welfare Reform and Pensions Act

# CONTRIBUTORS

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**BHAVNA BAINES**  
*Senior Technical Analyst*  
*Barnett Waddingham*

Barnett Waddingham is proud to be a leading independent UK consultancy at the forefront of risk, pensions, investment and insurance. We're a team of over 1,270, 73 of whom are partners, each delivering on our values and our promise to ensure the highest levels of trust, integrity and quality.

Everything we stand for at Barnett Waddingham is embedded in our promise – to do the right thing. We've applied this meaningful principle across all aspects of our business with continued success. Our continued and long-term focus on delivering value is our commitment to all our people and clients.



**CLAIRE DIMMOCK**  
*Professional Support Lawyer*  
*Squire Patton Boggs*

**LYNN HOUSECROFT**  
*Professional Support Lawyer*  
*Squire Patton Boggs*

One of the world's strongest integrated law firms, we are committed to providing insight at the point where law, business and government meet. We deliver commercially focused business solutions by combining our legal, lobbying and political capabilities and invaluable connections on the ground to a diverse mix of clients, from long-established leading corporations to emerging businesses, start-up visionaries and sovereign nations. More than 1,500 lawyers in 44 offices across 19 countries on five continents provide unrivaled access to expertise.



JUDITH DONNELLY

**Barrister**

*Addleshaw Goddard*

Addleshaw Goddard is a premium international business law firm. Its market-leading pensions team has four partners and 18 other team members across its offices in London, Leeds and Manchester and provides advice to pension scheme trustees, employers and public sector authorities on all aspects of pensions law. AG also has a dedicated pensions investment team which provides integrated advice that draws on expertise across areas such as investment funds, derivatives, real estate, infrastructure and tax.

# PRAG

JEFF HIGHFIELD

**Director**

*PRAG*

The Pensions Research Accountants Group (“PRAG”) is a leading independent industry body working for the development of occupational pensions schemes, with focus on financial reporting and internal control. PRAG’s members include accountants and pension professionals working in the pensions industry. We are the body recognised by the Financial Reporting Council for the publication of the accounting guidance through the Pensions Statement of Recommended Practice (“SORP”) which is a significant focus of our activities. We also issue guidance on other topical areas and respond to consultations on areas affecting occupational pension schemes.



**TERRI JARVIS**

***Founder***

*Planet Audit Limited*

Planet Audit Limited is an audit firm established by Terri Jarvis in 2012.

Planet Audit works only with pension scheme trustees and so is industry focussed and completely independent.

There is no standard pension scheme or board of Trustees and so we listen to our clients and tailor our service accordingly, always with the ultimate goal of delivering an efficient, timely and effective audit.

With a long history in pensions audit, we bring big firm experience, knowledge, quality and values, delivered in a way that feels different - a more personalised service developed to meet our clients' needs.



**MATTHEW MANEELY**

***Partner & Head of Pensions Assurance***

*Nexia Smith & Williamson*

The Smith & Williamson specialist pension team provide a comprehensive range of services to over 300 UK pension schemes including acting as scheme auditors to occupational pension schemes of all types and sizes. As you would expect from one of the UK's top ten national accounting firms, we are able to provide a full range of services. These range from scheme audits and pensions consultancy to internal controls assurance, accounts preparation and employee benefit advice.



## TIM MIDDLETON

### *Director of Policy and External Affairs*

Founded in 1976, the Pensions Management Institute (PMI) is the UK's largest and most recognisable professional body for employee benefit and retirement savings professionals, supporting over 6,500 members in 32 countries.

PMI's members, represented in 8 regions, are responsible for managing and advising some of the largest institutions in the world accounting for £1 trillion invested in pensions. We promote excellence through a range of services for the benefit of members, the wider economy and with over six million now saving as a result of automatic enrolment, society as a whole.



## KAREN PARRY

### *Head of Trustee Services*

#### *TPT Retirement Solutions*

TPT is one of the UK's leading providers of workplace pensions. An authorised Master Trust, offering both Defined Benefit and Defined Contribution multi-employer and standalone workplace schemes. Founded in 1946, TPT now has assets of over £10 billion and provides pensions for over 2,500 employers and more than 300,000 members.



**RICHARD ROBINSON**

***Principal Consultant***

*Aon*

Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions.

Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.

We provide retirement, investment, and human capital solutions that help employers, fiduciaries, and investment officers manage risk and optimize results in a volatile market environment.



**PETER WEINER**

***Professional Trustee***

*CBC Pension Services*

CBC Pension Services provide a dedicated and specialist pension service as either a professional trustee or secretariat services to pension schemes. We are a team of pension professionals who love what they do.

We work with a wide range of defined benefit and defined contribution schemes including master trusts. Whilst we often act with other trustees we do also work as a sole trustee.

We very much support trustee training in order that trustees can be the best they can in order to carry out their ever increasing role.

# SPONSORS

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# Pendragon

Wilmington Risk & Compliance

Pendragon published *Perspective*, the innovative and highly acclaimed legal and regulatory information service for the UK pensions industry. Organisations from all sectors of the pensions industry - funds, advisers, regulators and trustees - have come to rely on *Perspective*.

*Perspective's* content is updated several times a day and includes Acts, SIs, regulatory materials (PPF, The Pensions Regulator, HMRC etc), EU documents, law reports, Ombudsman determinations, news, parliamentary coverage, commentary, reports, statistics and surveys.

*Perspective's* functionality is unrivalled. Key features include cross-referencing between documents, our 'Time Travel' facility which enables users to view legislation and other documents as in force on any date in the past, present or future and a powerful search tool. Users are also made aware of developments within the industry through the daily email News Alert Service.

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# PRODUCERS

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## PRAG

### *Pensions Research Accountants Group (PRAG)*

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### ***Pensions Management Institute***

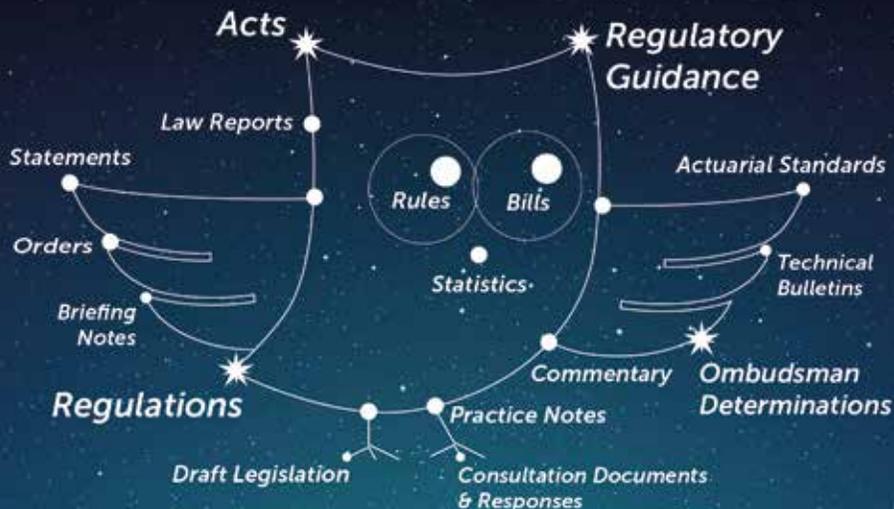
Founded in 1976, the Pensions Management Institute (PMI) is the UK's largest and most recognisable professional body for employee benefit and retirement savings professionals, supporting over 6,500 members in 32 countries.

PMI's members, represented in 8 regions, are responsible for managing and advising some of the largest institutions in the world accounting for £1 trillion invested in pensions. We promote excellence through a range of services for the benefit of members, the wider economy and with over six million now saving as a result of automatic enrolment, society as a whole.

The purpose of the Institute is "To set and promote standards of excellence and lifelong learning for employee benefits and retirement savings professionals and trustees through qualifications, membership and ongoing support services."

**[www.pensions-pmi.org.uk](http://www.pensions-pmi.org.uk)**

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Pensions  
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Institute

ACHIEVING PENSIONS EXCELLENCE