The tools of the trade
A-Z pensions law handbook
2016/17
“Eversheds’ presence at Trustee meetings has been of considerable assistance, with pragmatic advice helping the Trustee consider and progress complex matters. Eversheds provide a valuable service and have succeeded in building a strong relationship with the scheme.”

**Alister Bowen,**
Secretary to the Trustee of the British Airways Retirement Plan

“*The thing that really marks out Eversheds is their ability to balance technical excellence with seeing the big picture.*”

**Kerrie Rowland,**
Trustee and European Pensions and Benefits Senior Manager, GE Pension Plan

“Eversheds’ recent help at very short notice was much appreciated – as trustees we felt you provided us with the right level of support and helped us to be confident in our decisions.”

**Richard Helyer,**
Trustee and Chief Underwriter and Claims Manager, Canada Life

“Eversheds always gives practical advice and [is] a wonderful team member. They definitely feel like a partner in our business.”

**Susan Grady,**
Assistant GC, SPX Corporation
Preface


When I wrote the preface to last year’s edition, we were looking forward with some trepidation to the advent of “freedom and choice” in the UK in April 2015. Since then, trustees, employers and pension providers – not to mention pension lawyers – have been getting to grips with what freedom and choice means in practical terms. This year, we “stopped press” to await George Osborne’s 2016 UK budget speech. A wholesale review of the current UK pensions tax system has been averted (for the time being) but Mr Osborne unveiled a new retirement savings vehicle, the “Lifetime ISA” for those under 40. The big question for the pensions industry is how this new product will affect traditional pension savings - particularly via auto-enrolment – and whether it is the first step in a journey to a TEE system of tax relief for retirement savings.

During the past year in the UK, pension plans have been busy reconciling GMPs before the impending closure of HMRC’s GMP service, and preparing for the introduction of the tapered annual allowance and the abolition of DB contracting-out. We have also seen, among many other things, the introduction of a requirement for trustees of plans that provide money purchase benefits to produce an annual Chair’s statement and assess good value/value for money, a charges cap for auto-enrolment default funds and further developments in the VAT treatment of pension costs. Meanwhile, pension scammers have proved an enduring headache, with the High Court’s recent decision in Hughes providing little by way of assistance for trustees and administrators.

The recurring theme in pensions – both in the UK and across Europe – is constant change and there are of course plenty of developments on the horizon for the coming tax year. UK employers will need to keep a watching brief on further significant change on the pensions tax front, and also on the approach of the Pensions Regulator which we sense has a renewed willingness to flex its regulatory muscle. Employers and pension funds across Europe will need to be alive to the implications for plan governance and disclosure of the new IORP
II Pensions Directive. They will also need to keep a close eye on the European regulator – EIOPA – and its plans for solvency funding for EU defined benefit plans. Meanwhile, the UK’s membership of the EU is the subject of a referendum on 23 June and we believe that the bar will continue to rise on governance, particularly in the DC sphere.

Eversheds remains at the forefront of developing pensions legislation, regulation and policy through our involvement with key industry bodies such as the CBI, the Pensions and Lifetime Savings Association, the Association of Pension Lawyers and PensionsEurope. This gives us – and you as our clients and colleagues – an unrivalled view over the horizon of forthcoming developments. We have a strong international pensions team alongside our UK one and so have expanded the international part of this handbook to include an enlarged selection of terminology from our European colleagues in Belgium, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Spain and Switzerland.

I hope you find this handbook a useful point of reference. It has been updated to 1 February 2016, though we have taken account of later developments where possible.

Remember that you can stay up to date with the latest pension news and insight by visiting eversheds.com/pensions and signing up for our regular email Speedbriefs and events in your region.

You can also follow us on twitter @pensionslawyers.

Please contact me if you have any comments or questions.

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* In association with Eversheds.

Eversheds has European pension contacts in Austria, Belgium, Czech Republic, France, Germany, Ireland, Italy, Netherlands, Norway, Poland, Spain, Sweden and Switzerland.
Areas of expertise

- setting-up and amending schemes
- managing scheme change
- scheme funding (including asset backed funding arrangements)
- buy-outs and buy-ins
- advising on auto-enrolment requirements
- wind-ups (including PPF eligibility)
- mergers and acquisitions
- international pensions
- scheme governance issues (including investment matters, trustee duties and managing conflicts)
- public sector: outsourcing, Local Government Pension Scheme, education, health, central government
- litigation and dispute resolution, including Pensions Ombudsman investigations
- trust documentation and trusteeship
- manager appointments
- fund investments
- derivatives and other trading strategies
- insurance-based investments
- trustee training

Pensions Age Awards 2016: Winner, Pensions Law Firm of the Year
Pension and Investment Provider Awards 2015: Winner, Pensions Law Firm of the Year
UK Pensions Awards 2015: Winner, Pension Lawyers of the Year
Mallowstreet Awards 2014: Winner, Most Influential Law Firm
“Eversheds’ presence at Trustee meetings has been of considerable assistance, with pragmatic advice helping the Trustee consider and progress complex matters. Eversheds provide a valuable service and have succeeded in building a strong relationship with the scheme.”

Alister Bowen, secretary to the Trustee of the British Airways Retirement Plan
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How to use this handbook

The terms are arranged in alphabetical order. Text in bold indicates that the term is defined in this handbook. Generally, terms with a specific pensions meaning have been defined; terms that have an ordinary meaning are not defined in the handbook. It is important to note that many of the terms referred to in the handbook might be defined differently in scheme rules. These definitions would, subject to legislation, take precedence over those in this handbook.

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## Pensions acronyms

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<th>Abbreviation</th>
<th>Description</th>
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<td>AA</td>
<td>Annual allowance</td>
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<tr>
<td>ABI</td>
<td>Association of British Insurers</td>
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<td>ACA</td>
<td>Association of Consulting Actuaries</td>
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<tr>
<td>ACD</td>
<td>Authorised corporate director</td>
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<tr>
<td>ACS</td>
<td>Authorised contractual scheme</td>
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<tr>
<td>AIF</td>
<td>Alternative investment fund</td>
</tr>
<tr>
<td>AIFM</td>
<td>Alternative investment fund manager</td>
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<tr>
<td>AIFMD</td>
<td>Alternative investment fund managers directive</td>
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<tr>
<td>APL</td>
<td>Association of Pension Lawyers</td>
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<tr>
<td>APPS</td>
<td>Appropriate personal pension scheme</td>
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<td>ARP</td>
<td>Accrued rights premium</td>
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<td>ASB</td>
<td>Accounting Standards Board</td>
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<td>ASP</td>
<td>Alternatively secured pension</td>
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<tr>
<td>AUT</td>
<td>Authorised unit trust</td>
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<tr>
<td>AVC</td>
<td>Additional voluntary contribution</td>
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<td>AWA</td>
<td>Approved withdrawal arrangement</td>
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<tr>
<td>BAS</td>
<td>Board for Actuarial Standards</td>
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<tr>
<td>BIS</td>
<td>Department for Business Innovation and Skills</td>
</tr>
<tr>
<td>CARE</td>
<td>Career average revalued earnings</td>
</tr>
<tr>
<td>CBI</td>
<td>Confederation of British Industry</td>
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<tr>
<td>CCP</td>
<td>Central clearing counterparty</td>
</tr>
<tr>
<td>CDC</td>
<td>Collective DC scheme</td>
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<tr>
<td>CEP</td>
<td>Contributions equivalent premium</td>
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<tr>
<td>CFTC</td>
<td>Commodity Futures Trading Commission</td>
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<tr>
<td>CJEU</td>
<td>Court of Justice of the European Union (also known as ECJ)</td>
</tr>
<tr>
<td>CETV</td>
<td>Cash equivalent transfer value</td>
</tr>
<tr>
<td>Acronym</td>
<td>Definition</td>
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<tr>
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<tr>
<td>CIF</td>
<td>Common investment fund</td>
</tr>
<tr>
<td>CIS</td>
<td>Collective investment scheme</td>
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<tr>
<td>CLG</td>
<td>Department for Communities and Local Government</td>
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<td>COMBS</td>
<td>Contracted-out mixed benefit scheme</td>
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<tr>
<td>COMPS</td>
<td>Contracted-out money purchase scheme</td>
</tr>
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<td>COSRS</td>
<td>Contracted-out salary related scheme</td>
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<td>CPA</td>
<td>Compulsory purchase annuity</td>
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<tr>
<td>CPI</td>
<td>Consumer prices index</td>
</tr>
<tr>
<td>CPIH</td>
<td>Consumer prices index (housing)</td>
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<tr>
<td>DA</td>
<td>Defined ambition</td>
</tr>
<tr>
<td>DB</td>
<td>Defined benefit</td>
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<tr>
<td>D&amp;B</td>
<td>Dun &amp; Bradstreet</td>
</tr>
<tr>
<td>DC</td>
<td>Defined contribution</td>
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<tr>
<td>DRA</td>
<td>Default retirement age</td>
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<td>DWP</td>
<td>Department for Work and Pensions</td>
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<tr>
<td>ECJ</td>
<td>European Court of Justice (also known as CJEU)</td>
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<tr>
<td>ECON</td>
<td>Employer’s contracting-out number</td>
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<tr>
<td>EET</td>
<td>Exempt exempt taxed</td>
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<tr>
<td>EFRBS</td>
<td>Employer-financed retirement benefits scheme (previously known as FURBS)</td>
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<td>EIOPA</td>
<td>European Insurance and Occupational Pension Authority</td>
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<tr>
<td>ELTIF</td>
<td>European Long-Term Investment Fund</td>
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<tr>
<td>EMIR</td>
<td>European Markets and Infrastructure Regulation</td>
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<tr>
<td>EPB</td>
<td>Equivalent pension benefit</td>
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<tr>
<td>EPP</td>
<td>Executive pension plan</td>
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<td>ERI</td>
<td>Employer-related investment</td>
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<tr>
<td>Abbreviation</td>
<td>Full Form</td>
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<tr>
<td>ESMA</td>
<td>European Securities and Markets Authority</td>
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<tr>
<td>ETV</td>
<td>Enhanced transfer value</td>
</tr>
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<td>EU</td>
<td>European Union</td>
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<td>FA04</td>
<td>Finance Act 2004</td>
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<tr>
<td>FAS</td>
<td>Financial Assistance Scheme or Financial Accounting Standard</td>
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<tr>
<td>FATCA</td>
<td>Foreign Account Tax Compliance Act</td>
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<td>FCA</td>
<td>Financial Conduct Authority</td>
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<tr>
<td>FOA</td>
<td>Futures and Options Association</td>
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<tr>
<td>FRS</td>
<td>Financial Reporting Standard</td>
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<td>FSAVC</td>
<td>Free standing additional voluntary contribution</td>
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<tr>
<td>FSD</td>
<td>Financial support direction</td>
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<tr>
<td>FSMA</td>
<td>Financial Services and Markets Act 2000</td>
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<tr>
<td>FURBS</td>
<td>Funded unapproved retirement benefits scheme (superseded by EFRBS)</td>
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<tr>
<td>GAD</td>
<td>Government Actuary’s Department</td>
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<tr>
<td>GIPS</td>
<td>Global Investment Performance Standards</td>
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<tr>
<td>GLEIS</td>
<td>Global Legal Entity Identifier System</td>
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<td>GMP</td>
<td>Guaranteed minimum pension</td>
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<td>GMRA</td>
<td>Global Master Repurchase Agreement</td>
</tr>
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<td>GN</td>
<td>Guidance note issued by the BAS (now largely replaced by TASs)</td>
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<td>GPP</td>
<td>Group personal pension</td>
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<td>HMRC</td>
<td>Her Majesty's Revenue &amp; Customs</td>
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<td>IA</td>
<td>Investment Association (formerly Investment Management Association) or International Association</td>
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<td>IAS</td>
<td>International Accounting Standard</td>
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<td>Description</td>
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<tr>
<td>ICTA</td>
<td>Income and Corporation Taxes Act 1988</td>
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<td>ICVC</td>
<td>Investment company with variable capital</td>
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<td>IDRП</td>
<td>Internal dispute resolution procedure</td>
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<td>IFA</td>
<td>Independent financial adviser</td>
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<td>IFRS</td>
<td>International Financial Reporting Standard</td>
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<td>IGG</td>
<td>Investment Governance Group</td>
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<td>IHT</td>
<td>Inheritance tax</td>
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<td>IMA</td>
<td>Investment management agreement/Investment Management Association (now the Investment Association)</td>
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<td>IORP</td>
<td>Institution for occupational retirement provision</td>
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<td>IPA</td>
<td>Individual pensions account</td>
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<td>IPTG</td>
<td>Independent Pension Trustee Group (part of the PMI)</td>
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<td>IR</td>
<td>Inland Revenue (now HMRC)</td>
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<td>IRA</td>
<td>Individual retirement account (USA)</td>
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<td>IRSPSS</td>
<td>Inland Revenue Savings, Pensions and Share Schemes Office (formerly PSO and now HMRC)</td>
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<td>ISDA</td>
<td>International Swaps and Derivatives Association</td>
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<td>ISLA</td>
<td>The International Securities Lending Association</td>
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<td>ITEPA</td>
<td>Income Tax (Earnings and Pensions) Act 2003</td>
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<td>JWG</td>
<td>Joint Working Group for Occupational Pension Schemes (an umbrella organisation for the ABI, the ACA, the APL, the NAPF and the SPC)</td>
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<td>LDI</td>
<td>Liability driven investment</td>
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<tr>
<td>LEI</td>
<td>Legal Entity Identifier</td>
</tr>
<tr>
<td>LEL</td>
<td>Lower earnings limit</td>
</tr>
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<td>LET</td>
<td>Lower earnings threshold</td>
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<td>LGE</td>
<td>Local Government Employers</td>
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<td>Description</td>
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<td>LGPC</td>
<td>Local Government Pensions Committee</td>
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<td>LGPS</td>
<td>Local Government Pension Scheme</td>
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<td>Limited price indexation</td>
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<td>Lifetime allowance</td>
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<td>Lifetime allowance charge</td>
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<td>Minimum funding requirement</td>
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<td>Minimum income guarantee</td>
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<td>MND</td>
<td>Member-nominated director</td>
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<td>Member-nominated trustee</td>
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<td>MVA</td>
<td>Market value adjustment</td>
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<td>National Association of Pension Funds (now called PLSA)</td>
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<td>NBV</td>
<td>Net book value</td>
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<td>National Employment Savings Trust</td>
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<td>NFC</td>
<td>Non-financial counterparty</td>
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<td>NHSPS</td>
<td>National Health Service Pension Scheme</td>
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<td>NICO</td>
<td>National Insurance Contributions Office, part of HMRC</td>
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<td>NISPI</td>
<td>National Insurance Services to Pensions Industry</td>
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<td>NMPA</td>
<td>Normal minimum pension age</td>
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<td>NPA</td>
<td>Normal pension age</td>
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<td>NDP</td>
<td>Normal pension date</td>
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<td>NRA</td>
<td>Normal retirement age</td>
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<td>NRD</td>
<td>Normal retirement date</td>
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<td>NRE</td>
<td>Net relevant earnings</td>
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<td>NURS</td>
<td>Non-UCITS retail scheme</td>
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<td>OEIC</td>
<td>Open ended investment company</td>
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<td>Description</td>
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<td>OMO</td>
<td>Open market option</td>
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<td>OPAS</td>
<td>Occupational Pensions Advisory Service (now TPAS)</td>
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<td>OPRA</td>
<td>Occupational Pensions Regulatory Authority (replaced on 6 April 2005 by the Pensions Regulator)</td>
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<td>OPS</td>
<td>Occupational pension scheme</td>
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<td>OTC</td>
<td>Over-the-counter</td>
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<td>PA95</td>
<td>Pensions Act 1995</td>
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<td>PA04</td>
<td>Pensions Act 2004</td>
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<tr>
<td>PCB</td>
<td>Pensions Compensation Board (now the Fraud Compensation Fund, operated by the PPF)</td>
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<td>PCSPS</td>
<td>Principal Civil Service Pension Scheme</td>
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<td>PFI</td>
<td>Private Finance Initiative</td>
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<td>PFPV</td>
<td>Pension fund pooling vehicle</td>
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<td>PHI</td>
<td>Permanent health insurance</td>
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<td>PIE</td>
<td>Pension increase exchange</td>
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<td>PIP</td>
<td>Pension input period/Pensions infrastructure platform</td>
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<td>PIRC</td>
<td>Pensions Information Research Consultants</td>
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<td>Pensions Law Review Committee</td>
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<td>Pension and Lifetime Savings Association (formerly called the NAPF)</td>
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<td>PMI</td>
<td>Pensions Management Institute</td>
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<td>PN</td>
<td>Practice note</td>
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<td>PO</td>
<td>Pensions Ombudsman</td>
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<td>PPF</td>
<td>Pension Protection Fund</td>
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<tr>
<td>PPI</td>
<td>Pooled pension investment or Pensions Policy Institute PPP/PPS Personal pension plan/scheme or public private partnership</td>
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<tr>
<td>PRA</td>
<td>Prudential Regulation Authority</td>
</tr>
<tr>
<td>PRAG</td>
<td>Pensions Research Accountants Group</td>
</tr>
<tr>
<td>Acronym</td>
<td>Description</td>
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<tr>
<td>---------</td>
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</tr>
<tr>
<td>Pre-LEI</td>
<td>Pre-legal entity identifier</td>
</tr>
<tr>
<td>PRP</td>
<td>Protected rights premium</td>
</tr>
<tr>
<td>PSA93</td>
<td>Pension Schemes Act 1993</td>
</tr>
<tr>
<td>PSO</td>
<td>Pension Schemes Office (succeeded by HMRC Pension Schemes Services)</td>
</tr>
<tr>
<td>PUP</td>
<td>Paid up pension</td>
</tr>
<tr>
<td>QIS</td>
<td>Qualified investor scheme</td>
</tr>
<tr>
<td>QROPS</td>
<td>Qualifying recognised overseas pension scheme</td>
</tr>
<tr>
<td>RAC</td>
<td>Retirement annuity contract</td>
</tr>
<tr>
<td>Repo</td>
<td>Repurchase transaction</td>
</tr>
<tr>
<td>RPI</td>
<td>Retail prices index</td>
</tr>
<tr>
<td>RPIJ</td>
<td>Retail prices index (Jevons)</td>
</tr>
<tr>
<td>RPSM</td>
<td>Registered pension scheme manual</td>
</tr>
<tr>
<td>SCON</td>
<td>Scheme contracting-out number</td>
</tr>
<tr>
<td>SEC</td>
<td>Securities and Exchange Commission</td>
</tr>
<tr>
<td>SERPS</td>
<td>State earnings-related pension scheme (superseded by S2P)</td>
</tr>
<tr>
<td>SFO</td>
<td>Statutory funding objective</td>
</tr>
<tr>
<td>SFP</td>
<td>Statement of funding principles</td>
</tr>
<tr>
<td>SI</td>
<td>Statutory Instrument</td>
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<tr>
<td>SIP</td>
<td>Statement of investment principles</td>
</tr>
<tr>
<td>SIPP</td>
<td>Self-invested personal pension</td>
</tr>
<tr>
<td>SLTA</td>
<td>Standard lifetime allowance</td>
</tr>
<tr>
<td>SMPI</td>
<td>Statutory money purchase illustration</td>
</tr>
<tr>
<td>SORP</td>
<td>Statement of recommended practice</td>
</tr>
<tr>
<td>SPA</td>
<td>State pension age</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Description</td>
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<td>--------------</td>
<td>-----------------------------------------------------------------------------</td>
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<tr>
<td>SPC</td>
<td>Society of Pension Consultants</td>
</tr>
<tr>
<td>SRI</td>
<td>Socially responsible investment</td>
</tr>
<tr>
<td>SSAP</td>
<td>Statement of standard accounting practice</td>
</tr>
<tr>
<td>SSAS</td>
<td>Small self administered scheme</td>
</tr>
<tr>
<td>STRGL</td>
<td>Statement of total recognised gains and losses</td>
</tr>
<tr>
<td>SUURBS</td>
<td>Secured unfunded unapproved retirement benefits scheme</td>
</tr>
<tr>
<td>S2P</td>
<td>State second pension</td>
</tr>
<tr>
<td>TACT</td>
<td>The Association of Corporate Trustees</td>
</tr>
<tr>
<td>TAS</td>
<td>Technical actuarial standard issued by the BAS</td>
</tr>
<tr>
<td>TEE</td>
<td>Taxed exempt exempt</td>
</tr>
<tr>
<td>TKU</td>
<td>Trustee knowledge and understanding</td>
</tr>
<tr>
<td>TMA</td>
<td>Transition management agreement</td>
</tr>
<tr>
<td>TPAS</td>
<td>The Pensions Advisory Service (formerly the OPAS)</td>
</tr>
<tr>
<td>TPIE</td>
<td>Total pension increase exchange</td>
</tr>
<tr>
<td>TPR</td>
<td>The Pensions Regulator</td>
</tr>
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<td>TPS</td>
<td>Teachers’ Pension Scheme</td>
</tr>
<tr>
<td>TUPE</td>
<td>Transfer of Undertakings (Protection of Employment) Regulations 2006</td>
</tr>
<tr>
<td>TV</td>
<td>Transfer value</td>
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<tr>
<td>UEL</td>
<td>Upper earnings limit</td>
</tr>
<tr>
<td>UCITS</td>
<td>Undertakings for Collective Investment in Transferable Securities</td>
</tr>
<tr>
<td>UKIPS</td>
<td>United Kingdom Investment Performance Standard</td>
</tr>
<tr>
<td>USS</td>
<td>Universities Superannuation Scheme</td>
</tr>
<tr>
<td>UURBS</td>
<td>Unfunded unapproved retirement benefits scheme</td>
</tr>
<tr>
<td>WGMP</td>
<td>Widower’s/widow’s guaranteed minimum pension</td>
</tr>
</tbody>
</table>
A-day
6 April 2006, the effective date of the pensions tax regime introduced by the Finance Act 2004.

Abatement
Occurs where a member’s public service pension is reduced when he is re-employed after drawing his pension because his new salary and pension should not be more than his salary on retirement.

Accepted employer status
A mechanism under the Teachers’ Pension Scheme that allows a private contractor to participate in the Teachers’ Pension Scheme, where the contractor is providing services to a local authority maintained school, an academy or a non-maintained special school under an outsourcing contract, and employs teaching staff as a result of the transfer of those services. Such employers participate under a participation agreement.

Accounts, company
See company accounts.

Accounts, pension fund
See scheme accounts.

Accrual rate
The level at which benefits build up for each year of pensionable service in a defined benefit scheme.

Accrued benefits
Benefits that have built up for service up to a certain date, which are calculated in relation to remuneration either at that date or projected to a future date. See also accrued rights.

Accrued rights
Generally, these are benefits to which a member is entitled under a pension scheme and include accrued benefits. See also subsisting rights; section 67.
Active member

A member of a scheme who is accruing benefits under that scheme in respect of current pensionable service.

Actuarial assumptions

The set of assumptions used by the actuary in an actuarial valuation or other calculations (eg rates of return, inflation, increase in remuneration and mortality).

Actuarial certificate

A certificate signed by the actuary in certain circumstances (eg to certify that the actuarial equivalence requirements have been met as a result of an amendment to a scheme, to confirm there is a surplus, to confirm details of a bulk transfer or to confirm that the conditions of the reference scheme test were met).

Actuarial equivalence requirement

Applies in relation to a detrimental modification that is not a protected modification and where the trustees determine that this test is to apply. The actuarial equivalence test has three aspects, as set out below.

- Information requirement: advance notice of the change to be given to members by trustees. This must indicate how it will affect the members and allow them to make representations on the proposal.
- Actuarial value requirement: a member’s subsisting rights after the modification must be equal to or greater than the actuarial value of his subsisting rights immediately before the modification.
- Actuarial equivalence statement: a statement made by the actuary certifying that actuarial value has been maintained.

Actuarial report

An annual written report, prepared and signed by the scheme actuary, on developments affecting the scheme’s technical provisions since the last actuarial valuation.
**Actuarial valuation**

An assessment carried out by the scheme actuary to determine the ability of a scheme, typically a defined benefit scheme, to meet its liabilities. It is usually done to assess the funding level and to recommend a contribution rate based on comparing the actuarial value of assets and liabilities of the scheme. Depending on their provisions some schemes which have previously been treated as money purchase schemes may also now need to undertake such an assessment.

Trustees must obtain a written actuarial valuation at intervals of not more than one year or, if they obtain an actuarial report for the intervening years, at intervals of not more than three years.

**Actuary**

A professional specialising in evaluating and assessing risks, particularly those of a long term and financial nature. An actuary advises on the solvency and health of life assurance policies and pension funds. The scheme actuary appointed by the trustees has a number of statutory responsibilities concerning scheme funding. Scheme actuaries must generally be fellows of the Institute and Faculty of Actuaries.

**Added years**

Arise where a member of a defined benefit scheme is credited with additional years of pensionable service as a result, for example, of:

- a transfer payment received from another scheme
- an AVC payment
- an augmentation

See also additional voluntary contribution (AVC).

**Additional voluntary contribution (AVC)**

Contributions paid by a member of an occupational pension scheme to secure additional benefits. Since 6 April 2006, occupational pension schemes have no longer been obliged to offer members the option to make AVCs (but may do so if they wish). Paying AVCs enables members to acquire additional or top-up benefits (usually defined contribution benefits).

See also added years.
**Adjusted income**

An individual's **adjusted income** is relevant in determining whether the **tapered annual allowance** applies to them. Broadly, an individual’s adjusted income is their taxable income, which includes their employment income as well as income from other sources such as rental properties and dividends, less certain allowances and reliefs, plus employer and employee pension contributions to defined contribution schemes and the value of accrual under defined benefit schemes in the relevant tax year.

See also tapered annual allowance; threshold income.

**Administering authority**

A body that maintains and runs a fund within the **Local Government Pension Scheme**.

**Administrator**

A person or body responsible for the day-to-day management of a pension scheme. The **administrator** will maintain members’ records, calculate and pay benefits and manage contributions. Not to be confused with the **scheme administrator** for tax purposes.

**Admission agreement**

An agreement used to admit an admission body to the **Local Government Pension Scheme (LGPS)** in accordance with the Local Government Pension Scheme Regulations 2013, or to the **Principal Civil Service Pension Scheme (PCSPS)** under the revised **fair deal** guidance and PCSPS rules.

Admission agreements in relation to the LGPS will often require the admission body to provide a guarantee bond.

**Admission body**

An employer (usually a private sector body) that participates in the **Local Government Pension Scheme (LGPS)** or **Principal Civil Service Pension Scheme (PCSPS)** under an admission agreement. Commonly, an admission body will be a private sector employer employing staff who have been compulsorily transferred from a public sector body and who are either members of or eligible to be members of either the LGPS or the PCSPS at the time of their transfer.

See also community admission body; transferee admission body.
**Age discrimination**

Since 1 December 2006, it has been unlawful for pension scheme trustees and employers to discriminate against members or prospective members on the grounds of age. Legislation sets out some potentially age discriminatory rules and practices that are exempt from this general rule.

See also discrimination.

**Age-related rebate**

Payments made by the National Insurance Contributions Office (NICO) to an appropriate pension scheme, COMPS or COMBS for members who have contracted-out. They increase with the age of the member.

Following the abolition of protected rights on 6 April 2012, no further age-related rebates were payable. However, transitional provisions applied.

See also contracted-out rebate.

**Allocation**

A process by which a member gives up part of his pension in exchange for a pension payable to his spouse, civil partner or dependant. It is also known as surrender.

**Alternative dispute resolution (ADR)**

Any type of procedure or combination of procedures used voluntarily to resolve disputed issues.

See also dispute resolution; IDRP.

**Alternative investment fund (AIF)**

A collective investment undertaking which raises capital from a number of investors, with a view to investing it in accordance with a defined investment policy for the benefit of those investors. AIFs cannot also be UCITS.

**Alternative investment fund manager (AIFM)**

A legal person whose regular business is managing one or more AIFs.
Alternative investment fund managers directive (AIFMD)
The European Parliament and Council Directive 2011/60/EU of 8 June 2011 on alternative investment fund managers. This directive focuses on regulating the managers of AIFs and provides a harmonised framework for alternative funds and their managers.

Alternatively secured pension (ASP)
This was a form of income drawdown available to individuals over age 75 who wished (instead of buying an annuity at age 75) to continue to invest and draw an income from their pension arrangement.

Alternatively secured pensions ceased to be available from 6 April 2011.

Annual allowance
Introduced by the Finance Act 2004, this is the maximum amount by which a person’s pension benefits can build up annually without suffering a tax charge. The standard annual allowance is £40,000 for the 2015/16 tax year and it is expected to remain at this level for 2016/17. Accruals above this amount are subject to the annual allowance charge. From 6 April 2015 the annual allowance was reduced to £10,000 in certain circumstances (eg where an individual withdraws a lump sum which is more than the 25% pension commencement lump sum, draws funds from a flexi-access drawdown facility or takes more than the permitted maximum from a capped drawdown fund). In addition, the tapered annual allowance, which comes into force from 6 April 2016, will be the annual allowance available for higher earners.

Unused annual allowance can currently (subject to certain conditions) be carried forward for three years.

See also carry forward; lifetime allowance; tapered annual allowance.

Annual allowance charge
A tax charge levied on an individual who exceeds the annual allowance. It is charged on the amount by which the total pension input amount exceeds the annual allowance. The annual allowance charge is designed to recoup the full marginal rate tax relief the individual has received (ie basic, higher or additional rate relief).
Annual report
A means by which trustees of occupational pension schemes communicate information about the scheme to members, employers and other interested parties. Generally, this includes details of the audited accounts, an investment report and a financial review by the trustees.

From 6 April 2015, trustees of most defined contribution occupational pension schemes have been obliged to publish a chair’s statement in the annual report.

Annuity
A contract under which an insurance company agrees to pay income to an individual. The income secured will depend, for example, on prevailing annuity rates, age when purchased and sex of the individual. The income may be subject to increases, paid at stated intervals, and paid either until death or the end of a specified period.

There are several types of annuity, including short-term annuity, lifetime annuity, deferred annuity, purchased life annuity and reversionary annuity. The requirement for those with defined contribution benefits to buy an annuity (or otherwise face a significant tax charge) was removed from 6 April 2015.

Anti-avoidance
Refers to Pensions Act 2004 provisions which aim to prevent employers from using corporate structures to avoid pension liabilities. If the Pensions Regulator believes an employer is attempting to avoid its pension obligations under a defined benefit scheme, and consequently increasing the risk of a claim on the Pension Protection Fund, it may issue:

- a contribution notice which can direct a person to pay a specified sum to the trustees of a pension scheme
- a financial support direction requiring a person to put in place financial support for a pension scheme
- a restoration order which can direct the restoration of the position applying immediately before the occurrence of a transaction at an undervalue

See also material detriment test.
**Application form**

In an investment context, this is the form to be completed by investors when investing in a fund (or increasing their investment). The application form tends to include uncapped indemnities to be given by the investor. The investor will also be required to make a number of representations in order for the fund to categorise it for tax and regulatory reasons.

**Apportionment**

In relation to a multi-employer defined benefit occupational pension scheme, a mechanism under which the liabilities of an exiting participating employer for the purposes of section 75 of the Pensions Act 1995 are apportioned to one or more of the other participating employers in accordance with the requirements of the Occupational Pension Schemes (Employer Debt) Regulations 2005.

See also approved withdrawal arrangement; flexible apportionment arrangement; regulated apportionment arrangement; scheme apportionment arrangement; section 75 debt; withdrawal arrangement.

**Appropriate pension scheme (APP/APS)**

A personal pension plan, stakeholder pension scheme or FSAVC scheme which, before 6 April 2012, had received an appropriate scheme certificate from HMRC, enabling its members to contract-out. Following the abolition of contracting-out on a protected rights basis from 6 April 2012, it is no longer possible for a scheme to be an appropriate pension scheme.

**Anti-franking**

Anti-franking legislation prevents (subject to certain exemptions) the offsetting of statutory increases in GMPs (eg between termination of contracted-out employment and state pensionable age) against other scheme benefits, instead of being added to a member’s total benefits.

See also franking.
**Approved**

Until 6 April 2006, occupational pension schemes and personal pension plans required approval from HMRC to benefit from favourable tax treatment for contributions, benefits and investment return. Approval restricted the benefits that could be offered (for defined benefit schemes) and the contributions that could be paid (for defined contribution schemes). Since 6 April 2006, favourable tax status has been given to registered pension schemes provided certain conditions are satisfied.

**Approved person**

A person carrying out a certain function (which may be a controlled function) at an authorised firm, for which they have been approved by the FCA (or the PRA).

**Approved scheme**

A pension arrangement that was granted tax privileged status by HMRC before 6 April 2006. See also approval; registered pension scheme.

**Approved withdrawal arrangement (AWA)**

An arrangement that can be entered into by a participating employer, who would otherwise have to pay a section 75 debt, when it leaves a multi-employer defined benefit occupational pension scheme that has a funding deficit.

Under an approved withdrawal arrangement, the exiting employer must pay an amount to the trustees that may be less than its share of the scheme’s statutory funding objective deficit, with the remainder of the exiting employer’s full section 75 debt being guaranteed by a suitable guarantor. Pensions Regulator approval is required.

See also apportionment; flexible apportionment arrangement; regulated apportionment arrangement; scheme apportionment arrangement; withdrawal arrangement.

**Assessment date**

Date on which a Pensions Protection Fund (PPF) assessment period starts.
**Assessment period**

The period during which an eligible occupational pension scheme is assessed to ascertain whether the Pensions Protection Fund (PPF) can assume responsibility for it. The PPF will seek to establish:

- whether the scheme can be rescued
- whether the scheme can afford to secure benefits that are at least equal to levels of PPF compensation

If neither of these criteria can be met, the PPF may assume responsibility for the scheme. The PPF aims to complete the assessment period for most schemes within two years.

During an assessment period, the scheme trustees continue to be responsible for administering the scheme, no new members may be admitted, future contributions cease, benefits do not accrue and benefit payments are reduced to match PPF compensation levels.

**Asset-backed contributions**

A type of pension scheme funding arrangement that typically involves a company using income generating assets (such as stock, premises or intellectual property) to provide an asset-backed income stream to its pension scheme for an agreed period. These structures typically involve the use of a Scottish Limited Partnership.

Using these arrangements, a company can potentially reduce the deficit in its pension scheme and benefit from greater flexibility when negotiating a recovery plan with the scheme’s trustees.

See also contingent assets; statutory funding objective.

**Attachment order**

A court order in divorce proceedings/on the dissolution of a civil partnership. It provides a means by which pension benefits can be used to pay either maintenance or a capital sum from a pension scheme direct to an ex-spouse or an ex-civil partner on behalf of a member. This payment would only fall due when the member becomes entitled to payment of their benefit. This was formerly known as ‘earmarking’.
Auditor
An auditor is appointed to report on the financial statements of an entity. In relation to pension schemes, the scheme auditor will provide a report to the trustees on the scheme accounts and a statement regarding payment of contributions.
See also scheme auditor.

Augmentation
An amount of additional benefits provided in respect of a particular member, or category of members, of an occupational pension scheme, usually funded by the employer and sometimes by the scheme. This is paid in accordance with the scheme rules.

Authorised contractual scheme (ACS)
An authorised fund that is a tax transparent investment vehicle, established as a co-ownership scheme or a limited partnership scheme.

Authorised corporate director (ACD)
The director of an OEIC. The ACD must be authorised by the FCA.

Authorised employer payment
Payments which an occupational registered pension scheme is authorised to make under the Finance Act 2004 to or in respect of a sponsoring employer without incurring a penal tax charge.

Authorised firm
A firm which is authorised by the FCA and/or the PRA (as applicable). Also known as an authorised person.

Authorised fund
A fund which is authorised by the FCA in the UK. The detailed and prescriptive regulations imposed on investments marketed to the general public in the UK apply to authorised funds, including in relation to (i) illiquid investments; (ii) leverage and (iii) highly concentrated positions. See also OEIC and AUT.
**Authorised lump sum**

Lump sum payments which a registered pension scheme is authorised to make under the Finance Act 2004 to or in respect of a member. These payments have favourable tax treatment and include:

- pension commencement lump sums
- uncrystallised funds pension lump sums
- trivial commutation lump sums
- short service refund lump sums
- serious ill-health lump sums
- winding-up lump sums
- lifetime allowance excess lump sums
- lump sum death benefits
- payments as prescribed by HMRC

**Authorised member payment**

The payments that a registered pension scheme is authorised to make under the Finance Act 2004 to or in respect of a member without incurring a penal tax charge include:

- authorised pensions
- authorised lump sums
- recognised transfers
- scheme administration member payments
- payments pursuant to a pension sharing order
- payments as prescribed by HMRC

**Authorised pension**

Pension payments which a registered pension scheme is authorised to make by the Finance Act 2004 in respect of a member without incurring a penal tax charge.

**Authorised unit trust (AUT)**

A unit trust which is authorised by the FCA.

See also authorised fund.
**Auto-enrolment**
A process for workers to be enrolled automatically into a pension scheme without any active decision on their part. Employers are required to auto-enrol eligible jobholders into a qualifying pension scheme that meets certain quality requirements (including the payment of minimum employer contributions or the provision of a minimum level of benefits). This legal requirement began to be phased in from 1 October 2012, starting with the largest employers. **Staging dates** for small employers are ongoing.

Once an eligible jobholder has been auto-enrolled into a qualifying pension scheme he will have a statutory right to opt out of it. However, the employer will be required to re-enrol the individual automatically approximately every three years.

See also auto-enrolment scheme; automatic re-enrolment; eligible jobholder; jobholder; staging date; NEST.

**Auto-enrolment scheme**
A pension scheme that may be used by an employer to meets its auto-enrolment duties. In order to be used as an auto-enrolment scheme a pension scheme must be a qualifying pension scheme and it must not contain any provisions which:

- prevent the employer from complying with its auto-enrolment duties
- require an individual to make a choice or provide information in order to remain an active member of the scheme

See also qualifying pension scheme; eligible jobholder.

**Automatic enrolment**
See auto-enrolment.

**Automatic re-enrolment**
Employers will be required to re-enrol automatically eligible jobholders who opt-out of a qualifying pension scheme on (broadly) the third anniversary of their staging date and every three years thereafter if they are still an eligible jobholder at that time and no exemptions apply.

See also auto-enrolment.

**Average earnings**
See career average.
Bb
Bankruptcy
Where a bankruptcy order has been made on a bankruptcy petition that was presented on or after 29 May 2000, generally, a member’s undrawn pension benefits are protected from a trustee-in-bankruptcy (though the 2012 High Court case of Raithatha v Williamson casts doubt over this).
See also insolvency event.

Barber judgment
A judgment of the ECJ on 17 May 1990 (Barber v Guardian Royal Exchange). This confirmed that pensions count as ‘pay’ for the purposes of Article 157 of the Treaty on the Functioning of the European Union (formerly Article 141 of the Treaty of Rome), which provides that men and women are entitled to equal pay for equal work.
See also Barber window; equalisation.

Barber window
The period between 17 May 1990 (the date of the Barber judgment) and the date on which an occupational pension scheme equalises benefits for men and women. During the Barber window, the normal retirement dates for men and women remain unequal under scheme documents but must by law be ‘levelled up’ to the earliest normal retirement date.
See also Barber judgment; equalisation.

Basic state pension
The state pension that is currently paid to all those who have met the minimum national insurance contribution requirements. It is not related to earnings, unlike the state second pension. The basic state pension and the state second pension will be replaced by the single tier state pension from 6 April 2016.
See also single-tier state pension.

Beneficiary
Generally speaking, a person entitled to benefit under a pension scheme, or who will become entitled on the happening of a specified event. In other contexts such as under the tax legislation, the term ‘beneficiary’ may have a different meaning.
Benefit crystallisation event
An event that triggers a requirement for the scheme administrator to check whether the amount crystallised exceeds the member’s available lifetime allowance. This includes, for example, when someone retires or dies.

Benefit crystallisation events include when:
- funds are designated for drawdown
- a member becomes entitled to a scheme pension
- a scheme pension already in payment to a member is increased beyond a permitted margin
- a member becomes entitled to a lifetime annuity under a money purchase scheme
- a member becomes entitled to a relevant lump sum
- a relevant lump sum death benefit is paid on the death of a member
- a member’s benefits or rights are transferred to a qualifying recognised overseas pension scheme
- a member reaches age 75 and, broadly, has not started drawing all of his benefits
- other payments are made as prescribed by HMRC

Best Value Pensions Direction – The Best Value Authorities Staff Transfers (Pensions) Direction 2007
This requires best value authorities (which includes English local authorities) to ensure that future pension protection is provided for employees transferring under service contracts let or re-let after 1 October 2007. The authority must ensure that the service provider provides the transferred employees with pensions rights that are the same as, broadly comparable to, or better than the rights they had before the TUPE transfer. The employees must also have the ability to enforce these rights against the provider.

The Welsh Authorities Staff Transfers (Pensions) Direction 2012 provides similar protection requirements in respect of authorities in Wales.

Board for Actuarial Standards (BAS)
The BAS is responsible for issuing the new Technical Actuarial Standards which replace the previous actuarial guidance notes.
**Bridging pension**

A temporary pension paid by some schemes to members who retire before state pension age. This is designed to fill the gap between retirement and the start of the state pension. It normally ceases to be paid once the member reaches state pension age.

**Broadly comparable pension scheme**

An occupational pension scheme whose benefit structure has been certified, usually by the Government Actuary’s Department, as being broadly comparable to a public service pension scheme. Prior to the issue of the revised fair deal guidance in 2013, such schemes were commonly provided by private contractors involved in public sector outsourcing contracts. Where a broadly comparable pension scheme has been certified by the Government Actuary’s Department it may be known as a GAD certificate or passport scheme.

**Bulk transfer**

The transfer of the accrued rights of a group of members from one occupational pension scheme to another. Sometimes the transfer payment is enhanced when compared to an individual’s cash equivalent. Bulk transfers are sometimes negotiated as part of scheme mergers, corporate transactions or on public sector outsourceings where the contractor is providing a broadly comparable pension scheme.

**Buy-back**

The payment of a state scheme premium to reinstate a member into SERPS or the state second pension for the period the member was contracted-out.

**Buy-in**

Where trustees choose to invest scheme assets in a bulk annuity contract that covers some or all of the liabilities under their scheme. The bulk annuity contract is held within the scheme and the liability to pay members’ benefits remains a liability of the scheme.

See also annuity; buy-out.
Buy-out
The process by which the liability to pay some or all of the benefits under a pension scheme is transferred to another financial entity, such as an insurance company.
See also buy-in; partial buy-out.

Buy-out basis
The basis for valuing a defined benefit scheme’s liabilities, which involves assuming that the scheme has discontinued and that the liabilities have to be secured through the purchase of annuities or deferred annuities. Also known as the section 75 basis or discontinuance basis.

Buy-out policy
An insurance policy purchased in the name of a member or other beneficiary after the member’s pensionable service has terminated. The policy provider agrees to pay the member’s benefits instead of the scheme trustees.
Capped drawdown

Before 6 April 2016 the ability for an individual to take some or all of their pension fund under a defined contribution scheme as cash each year. Under capped drawdown the maximum amount of pension that an individual could withdraw each year was limited (broadly) to 150 per cent of the value of an equivalent annuity.

Since 6 April 2015, capped drawdown has no longer been available for those taking benefits for the first time.

See also drawdown pension; flexible drawdown; flexi-access drawdown.

Career average

A defined benefit basis that calculates retirement benefits using average earnings throughout an individual’s pensionable earnings (rather than the approach of basing benefits on earnings at or near retirement). Also known as average earnings.

See also career average revalued earnings (CARE).

Career average revalued earnings (CARE)

A defined benefit basis that calculates retirement benefits using earnings throughout an employee’s career. The accrued retirement benefits for each year are revalued from the year of accrual to retirement age using an appropriate index.

Carry forward

Where the value of a member’s pension (defined contribution or defined benefit) accrual in any year exceeds the annual allowance, any unused annual allowance from the previous three tax years may currently be carried forward to be offset against the excess pension accrual. The annual allowance charge will apply to any pension accrual which still exceeds the annual allowance after carry forward.

See also annual allowance; annual allowance charge.
**Cash balance**

An arrangement whereby the amount that is available to provide benefits is calculated not just by reference to payments made by or on behalf of the member. For example, the scheme may promise that on retirement a minimum specified amount will be made available to provide the member with benefits for each year of pensionable service.

The specified amount might be an absolute amount, eg £5,000 per year of service, or a percentage of the member’s salary for each relevant year of service. The member then determines what benefits are provided with such cash balance. Alternatively, the scheme might guarantee a rate of investment return on the specified amount. The member can ascertain the amount that accrues in the pot each year (regardless of any contributions actually made).

**Cash equivalent**

The amount a member of an occupational pension scheme may require to be applied as a transfer payment to another permitted pension scheme or to a buy-out policy.

**Cash equivalent transfer value (CETV)**

Where a member’s benefits are to be transferred, they can be calculated as a CETV, in accordance with a prescribed method. (This is the minimum amount the trustees can offer, though may be reduced if the scheme is underfunded). This method is also used for calculating the value of a member’s pension benefits for the purpose of a pension sharing order. Members have a statutory right to a CETV in certain circumstances.

Until 1 October 2008, CETVs were calculated in accordance with GN11. However, CETVs are now calculated by trustees, after obtaining actuarial advice. (GN11 is no longer used.) The Pensions Regulator has published guidance on calculating transfer values.

**Central clearing counterparty (CCP)**

A legal person that interposes itself between the counterparties to derivative contracts, becoming the buyer to every seller and the seller to every buyer. Also referred to as a “clearing house”.

See also EMIR.
Centralised scheme
A scheme operated on behalf of several employers.

Chapter I
Refers to Chapter I of Part XIV of the Income and Corporation Taxes Act 1988 (ICTA), which specified the requirements that defined benefit schemes had to meet in order to obtain tax approval. Defined contribution schemes also had to be approved under this legislation or under Chapter IV. The approval requirements ceased to apply on 6 April 2006.

Chapter IV
Chapter IV of Part XIV of the Income and Corporation Taxes Act 1988 (ICTA), which specified the requirements that a personal pension plan had to meet in order to obtain tax approval. Occupational defined contribution schemes had to be approved under this legislation or under Chapter I. The approval requirements ceased to apply on 6 April 2006.

Charge cap
From 6 April 2015, default arrangements have been subject to a charge cap of 0.75 per cent of funds under management within the default arrangement, or an equivalent combination charge. The charge cap does not apply to certain occupational pension schemes including those that do not offer any money purchase benefits, or which only offer these benefits through additional voluntary contributions.

This cap was introduced by the Occupational Pension Schemes (Charges and Governance) Regulations 2015. The DWP has issued guidance on the charge cap for trustees and managers of occupational pension schemes.

Civil partner
An individual who has entered into a civil partnership under the Civil Partnership Act 2004.

Civil partnership
A legal relationship between two people of the same sex, entered into in accordance with the requirements of the Civil Partnership Act 2004.
Clearance

A voluntary procedure for companies and individuals to seek assurance from the Pensions Regulator that it will not use its anti-avoidance powers in relation to a transaction.

See also anti-avoidance.

Clearing

The process of establishing positions, including the calculation of net obligations, and ensuring that financial instruments, cash, or both, are available to secure the exposures arising from those positions. EMIR and Dodd-Frank have introduced clearing obligations for certain derivatives and market participants to improve stability in the OTC derivatives market.

See also financial counterparty.

Clearing member

An undertaking that participates in a central clearing counterparty (CCP) and which is responsible for discharging the financial obligations arising from that participation. Counterparties to derivatives transactions which are not members of a CCP can access the CCP through an arrangement with a clearing member.

Class A (or B or C) members

Terms derived from HMRC specimen rules that applied to members of occupational pension schemes formerly approved under Chapter I, who joined during specified periods before 6 April 2006, as follows:

- **Class A members:** members of occupational pension schemes established on or after 14 March 1989, and all other members of earlier schemes joining on or after 1 June 1989 and before 6 April 2006
- **Class B members:** members of occupational pension schemes established before 14 March 1989 who joined between 17 March 1987 and 31 May 1989
- **Class C members:** members who joined occupational pension schemes before 17 March 1987

See also Inland Revenue limits.
**Closed scheme**

There are two main types of closed scheme:

- where no new members are admitted and there is no accrual of future benefits (closed to accrual)
- where no new members are admitted but contributions continue and benefits are provided for future service in respect of existing members (closed to new members)

See also frozen scheme; paid up scheme.

**Closing value**

The notional capital value for pensions tax purposes of expected benefits at the end of the pension input period. The closing value can be subject to adjustments for example, where benefits are transferred in or out or there is a pension credit or pension debit.

See also pension input period.

**Code of practice**

The Pensions Regulator is responsible for issuing codes of practice to provide practical guidance on compliance with legal requirements. The codes of practice are aimed at those involved in running and providing pension schemes and set out standards that a well-run occupational pension scheme should meet. Codes of practice are available on the following topics:

- reporting breaches of the law (whistleblowing)
- notifiable events
- funding defined benefits
- early leavers – reasonable periods
- reporting late payment of contributions to occupational money purchase schemes
- reporting late payment of contributions to personal pensions
- trustee knowledge and understanding
- MNTs/MNDs – putting arrangements in place
- internal controls
- modification of subsisting rights
- dispute resolution – reasonable periods
- application of the material detriment test – anti-avoidance provisions
- governance and administration of occupational defined contribution trust-based schemes
- governance and administration of public service pension schemes
Collateral
Cash or securities which are transferred between counterparties to certain derivatives transactions in order to mitigate credit risk. In the case of clearing, the collateral will be deposited with the central clearing counterparty (CCP). This type of collateral is also known as “margin”. Collateral can also mean assets provided as security, or over which a security interest has been created, to secure a liability owed by the collateral provider to the collateral taker.

Collective DC (CDC)
A pension scheme that aims to provide a target pension but where the employer pays a fixed contribution. The scheme’s assets are invested collectively in an attempt to maximise investment return.

Unlike a defined benefit scheme, benefits can be adjusted to ensure the employer’s cost stays constant and the funding level remains close to 100 per cent. In particular:

– revaluation (before and after retirement) is not guaranteed
– the pension payable to a member under a CDC scheme may be reduced in certain circumstances

CDC schemes are common in the Netherlands but Government plans to legislate to facilitate CDC in the UK are currently on hold.

See also defined ambition.
Collective investment scheme (CIS)
Any arrangement with respect to property of any description, which enables persons taking part in the arrangements to receive profits or income arising from the acquisition, holding, management or disposal of the property.
See also investment fund.

Commingled fund
Used to describe a common investment fund or an exempt unit trust.

Commission
See soft commissions.

Common investment fund (CIF)
A vehicle usually created as a trust that enables several pension funds to pool together the investment management of the assets they hold.

Community admission body
A term previously used to describe a not-for-profit body or body with local authority connections that participates in the Local Government Pension Scheme under an admission agreement.

Commutation
Where a member gives up some or all of his pension in exchange for an immediate lump sum payment. Also known as a cash option.
Since 6 April 2015, it has been possible for the whole of an individual’s defined contribution pension to be taken as cash from age 55 (subject to tax on amounts exceeding the 25% tax-free allowance).
See also small lump sum commutation; uncrystalised funds pension lump sum; trivial commutation lump sum; trivial pensions.

Company accounts
UK company accounts are required to include details of pension expenses. The accounting standards FRS 102 or IAS 19 are generally used for accounting periods after 1 January 2015.
**Consent requirements**

**Compulsory annuitisation**

The requirement in the Finance Act 2004 for a *member* to purchase an *annuity* before age 75. From 6 April 2015, it ceased to apply.

See also *capped drawdown*; *drawdown pension*; *flexible drawdown*; *minimum income requirement*.

**Concurrency**

Being an *active member* of more than one pension scheme at the same time. Before 6 April 2006, HMRC applied restrictions on *concurrency* in respect of *approved schemes*. No such restrictions now apply in respect of *registered pension schemes*.

**Consent requirements**

**Section 67** of the Pensions Act 1995 outlines the *consent requirements* that apply if changes are made to an *occupational pension scheme*. Under these requirements, if changes are to be made which affect a *member’s* or their survivors’ *subsisting rights*, the *member’s* consent must first be obtained or the *trustees* must ensure that:

- a written explanation has been given to the *member* and opportunity given for them to make representations
- they have satisfied themselves that the actuarial value of the *members’* benefits will be the same as or greater than their *subsisting rights* before the change
- they have obtained a statement from the *scheme actuary* certifying that the actuarial value of the benefits has been maintained (see *actuarial equivalence requirement*)

Where *member* consent is required, *trustees* need to provide *members* with clear details so that *members* can see the effect of the change.

See also *actuarial equivalence requirement*; *section 67*; *subsisting rights*.
Contingent assets

Assets that become available to an occupational pension scheme only on the occurrence of specified future events (e.g. employer insolvency or the failure to achieve a specified funding level). The assets may be taken into account when calculating the risk-based element of a scheme’s PPF levy provided they are in the form prescribed by the Pension Protection Fund and meet certain specified requirements.

Common types of contingent asset include:

- parent company guarantee
- letter of credit from a bank
- funds held in escrow
- charge over property

Continued rights

Before 6 April 2006, some members had the right to benefit from provisions that applied under previous pensions tax regimes, in particular the regimes that applied separately to pre-17 March 1987 members and to pre-1 June 1989 members. These rights were known as continued rights.

See also Class A (or B or C) members.
Continuous service
The treatment by an occupational pension scheme of the pensionable service of a member as continuous with a previous period of pensionable service (within the same scheme or another scheme).

Contract for difference
See swap.

Contracted-out
A pension scheme was contracted-out where before 6 April 2016, it provided certain benefits (or, before 6 April 2012, held an account for each member with particular contributions) in place of the state second pension and was given a contracting-out certificate. Lower national insurance contributions were payable for members of these schemes (see contracted-out rebate). Members were said to be contracted-out if they were in employment that was contracted-out by reference to an occupational pension scheme. Before 6 April 2012, individuals could also contract-out using a personal pension plan known as an appropriate pension scheme for these purposes.

Contracted-in
A pension scheme was commonly referred to as ‘contracted-in’ where it was not contracted-out, that is, it provides benefits in addition to the state second pension.

Contracting-out on a defined contribution (protected rights) basis was abolished from 6 April 2012. The introduction of the single-tier state pension from 6 April 2016 will lead to the end of contracting-out for defined benefit schemes, also, though specific rules will continue to apply in respect of historic contracted-out benefits.

See also age-related rebate; contracted-out rebate; single-tier state pension.

Contracted-out mixed benefit (COMB)
Before 6 April 2012, an occupational pension scheme that was contracted-out on both a salary related and money purchase basis, with separate reference scheme and protected rights sections.
**Contracted-out money purchase (COMP)**

A money purchase scheme that has contracted-out. The ability of an occupational pension scheme to contract-out as a COMP ceased from 6 April 2012.

**Contracted-out rebate**

An amount by which the employer’s and employee’s national insurance contributions were reduced or rebated in respect of employees whose employment was contracted-out before 6 April 2016 by virtue of their membership of an occupational pension scheme or, before 6 April 2012, an appropriate pension scheme.

See also age-related rebate; contracted-out/contracted-in.

**Contracted-out salary related (COSR)**

An occupational pension scheme that has contracted-out on a salary related basis by providing benefits that are broadly equivalent to or better than those specified under the reference scheme test. A COSR scheme is contracted-out in respect of pensionable service before 6 April 1997 by reference to the provision of a GMP. Contracting-out on a salary related basis ended with effect from 6 April 2016.

See also GMP; reference scheme test.

**Contracting-out certificate**

A certificate issued by HMRC where an occupational pension scheme satisfies contracted-out conditions before 6 April 2016. It confirmed that the active members of the employer named in the contracting-out certificate were to be treated as being in contracted-out employment and that national insurance contributions in respect of those active members were reduced.

**Contractual enrolment**

A process for employees to become members of a pension scheme automatically under the terms of their contract of employment.

**Contribution holiday**

A period during which the employer’s (and occasionally the member’s) contributions to an occupational pension scheme cease temporarily, usually because the scheme is in surplus.
**Contribution notice**
A notice requiring the payment of a sum of money to a defined benefit scheme, issued by the Pensions Regulator, to one or more employers or other persons associated with them, where:

- there is an act or failure, a main purpose of which was to prevent the recovery of all or part of a section 75 debt which was or might become due from the employer in relation to the scheme
- there is an act or failure, the main purpose of which was to prevent such a debt becoming due, to compromise or settle such a debt or to reduce the amount of such a debt which would otherwise become due, or
- the material detriment test is met

A contribution notice can also be issued in the event of non-compliance with a financial support direction or a restoration order.

See also anti-avoidance; debt on the employer; section 75 debt; material detriment test.

**Contribution schedule**
See schedule of contributions.

**Contributions – employer/member**
Monies paid into a scheme by an employer and/or member.

**Contributory scheme**
An occupational pension scheme into which the active members, not just the employer, pay contributions.

**Controlled functions**
The FCA has a list of controlled functions which relate to regulated activities carried on by an authorised firm. Some of these functions are compulsory and the persons who carry out the controlled functions must be approved persons.

**Corporate governance**
The principles by which companies are directed and controlled for the benefit of their shareholders/members.
Corporate trustee
A trustee that is a company rather than an individual person. A corporate trustee is commonly used instead of a board of individual trustees. Individuals are appointed to act as trustee directors rather than as trustees in their own right. A trustee board may be comprised of a corporate trustee in addition to individual trustees.
See also trust corporation.

Cost-sharing mechanism
The mechanisms adopted by public service pension schemes, designed to ensure that the scheme costs are sustainable for employers, members and taxpayers.

Cross-border scheme
A scheme that accepts contributions from a European employer (as defined in the Occupational Pension Schemes (Cross-border Activities) Regulations 2005) elsewhere in Europe is deemed to be a cross-border scheme. It must meet certain conditions (including strict funding requirements) and apply for authorisation from the Pensions Regulator.

CSIPP
A corporate SIPP, offered by a company to its employees. It is, essentially, a group of individual SIPPs with the same provider.
See also SIPP.

Custodian
A bank or institution, independent of the investment management function, that holds securities for safe-keeping and handles administrative arrangements such as collecting coupons and dividends.
See also trust corporation; depositary.
Data protection
The principles regulating the processing and storage of personal information as set out in the Data Protection Act 1998. The storage and processing of computerised and manually stored personal information held for the purposes of pension scheme administration requires registration by the processor. 
Trustees cannot rely on the registration of the principal employer and must effect their own registration with the Information Commissioner. In addition, trustees must ensure that any third parties (such as administrators) to whom data is passed have adequate processing and security systems in place.
There are special rules imposing extra safeguards for the storage and processing of sensitive personal information, such as health records and in relation to data stored outside the UK.

De-registration
HMRC may withdraw the registration of a registered pension scheme. This is known as de-registration and is reserved for serious cases of abuse or where there is a breach of the registered pension scheme requirements. The effect of de-registration is that the scheme no longer qualifies for favourable tax treatment.
A tax charge of 40 per cent of the value of the fund will also be incurred.

Debt on the employer
See section 75 debt.

Deed of adherence
See deed of participation.

Deed of admission
See deed of participation.

Deed of appointment
A deed appointing a new occupational pension scheme trustee.
Deed of participation
A deed admitting a new employer to participate in an occupational pension scheme. The deed usually contains an undertaking by the new employer to comply with the definitive trust deed and rules of the scheme. Also known as a deed of adherence or deed of admission.

Deed of removal
A deed removing an occupational pension scheme trustee.

Default arrangement
In a scheme that provides money purchase benefits this is, very broadly speaking, an arrangement whereby contributions are allocated to particular funds without the member making an active choice. A scheme used by employers to meet their automatic enrolment duties must have a default arrangement.

Certain default arrangements are subject to a charge cap of 0.75 per cent. Specific governance requirements, such as the preparation of a statement of investment principles, may also apply.

See also charge cap.

Default retirement age (DRA)
Employers were previously able to retire employees from employment compulsorily at the statutory DRA of 65, having given six months’ written notice. However, the DRA was abolished from October 2011. Now, no employee may be retired compulsorily by an employer at a particular age unless this can be objectively justified (ie it is a proportionate means of achieving a legitimate aim); this may not be straightforward to prove.

Deferred annuity
An annuity that starts to pay out from a future date. See also section 32 policy.

Deferred member
A member who is no longer an active member of a scheme (usually as a result of leaving his employer or the scheme closing to future accrual) but who is entitled to preserved benefits. Also known as a deferred pensioner.
Deferred pension
Pension due to be paid to a deferred member at a future date.

Deferred pensioner
See deferred member.

Defined benefit
Benefits calculated by reference to a fixed formula, which is usually based on the value of a member’s salary and their length of pensionable service, irrespective of the contributions paid or investment performance of the fund. The most common type of defined benefit schemes are:
– final salary schemes
– career average or career average revalued earnings (CARE)
The term ‘defined benefits scheme’ now has a specific meaning under pensions legislation. This is contained in the Pension Schemes Act 2015.

Defined benefit lump sum death benefit
An authorised lump sum paid on the death of a member of a defined benefits scheme. It is usually a multiple of the member’s salary. However, it may also be a fixed sum. If the member dies before his 75th birthday, the lump sum must be paid before the end of the period of two years beginning with the earlier of the date on which the scheme administrator first knew of the member’s death and the date on which the scheme administrator could first reasonably be expected to have known of it.

Defined contribution
Traditionally, this has meant the same thing as money purchase. The phrase “defined contribution” is, however, used less frequently in law than “money purchase” and often in relation to quite specific areas such as contracting-out and governance.
Under the Pensions Scheme Act 2015, a defined contribution scheme is one under which there is no promise as to any of the retirement benefits that may be provided to members. However, this new definition was drafted in contemplation of the introduction of a framework to create defined ambition schemes (this plan is currently on hold) and is not yet in force.
See also money purchase.
Definitive trust deed and rules
A document containing the rules that govern a trust-based occupational pension scheme.
Also referred to as the scheme rules or the deed and rules.

Dependant
Someone who is dependent on a member and derives benefits through him. Scheme rules usually define dependant for the purposes of the scheme. The Finance Act 2004 also defines dependant for the purposes of determining who may receive certain authorised member payments.

Depositary
In respect of AIFs and UCITS, a depositary is the same as a custodian, but is subject to additional regulatory rules.

Derivative
A swap, a future or an option, being financial instruments whose value is dependent upon or derived from one or more underlying assets.

Determination (Pensions Ombudsman)
A decision by the Pensions Ombudsman or the Deputy Pensions Ombudsman that is final and binding on all parties. A determination can only be appealed on a point of law, in England and Wales, to the High Court, in Scotland, to the Court of Session, and in Northern Ireland, to the Court of Appeal.

Determinations panel
This is an independent committee within the Pensions Regulator that exercises certain powers on behalf of the Pensions Regulator (eg the power to issue a freezing order, contribution notice or financial support direction). Other powers, such as the power to issue an improvement notice, can be exercised by the Pensions Regulator's staff, without reference to the determinations panel.
**Detrimental modification**

Any modification to an occupational pension scheme that would or might adversely affect any subsisting rights of any member or survivor of a member of the scheme.  
See also section 67.

**Direction order**

Until 1 April 2014, membership of the NHS Pension Scheme was only normally available to those employed by an NHS employer (such as an NHS trust). However, membership could be extended to workers employed outside the NHS, but engaged in provision of NHS-related services, by way of a direction order.  
Prior to the publication of the revised fair deal guidance in 2013, such orders were usually only granted in respect of charitable organisations and voluntary bodies; but since its publication, such orders have also been granted in respect of private sector bodies under an outsourcing contract.

**Disclosure of information**

Members (and other interested parties) are entitled by law to be provided with certain information about their scheme and their pension savings/benefits, either automatically (eg scheme booklet, summary funding statement) or on request (eg cash equivalent transfer value).

**Discontinuance basis**

See buy-out basis.

**Discrimination**

Broadly, it is unlawful for employers and pension scheme trustees to discriminate on the grounds of sex, marital status, civil partner status, race, colour, nationality, ethnic or national origin, religion or belief, sexual orientation, disability or age. Part-time workers are also protected from discrimination by legislation. In some circumstances discriminatory treatment may be permitted if it can be objectively justified. The Equality Act 2010 consolidates the numerous pieces of legislation which previously comprised the UK’s anti-discrimination framework.  
See also age discrimination; equal treatment.
**Disguised remuneration**

Legislation provides for an income tax charge to arise where an employer provides **disguised remuneration** (i.e., makes provision for a reward or loan in connection with an employee’s employment in a way that avoids or defers tax or national insurance contributions). This is designed to target, amongst other things, family trusts and some **employer-financed retirement benefit schemes**.

**Dispute resolution**

Pension scheme disputes between a **member** and **trustees** can be resolved using a range of different methods, including:

- a scheme’s **internal dispute resolution procedure**
- **The Pensions Advisory Service**, which operates a network of volunteer advisers
- the **Pensions Ombudsman**
- the courts
- **alternative dispute resolution**, such as arbitration or mediation

**Divorce/dissolution of a civil partnership**

There are three main ways in which pensions are taken into account in divorce proceedings or the dissolution of a **civil partnership**.

- **Offsetting**: this ensures that the distribution of other assets held by both parties takes into account the value of the pension held by one or both of the parties.
- **Attachment order** (formerly called earmarking): this requires the payment to the former spouse of part or all of a **member’s** pension (and/or lump sum) as and when it falls due.
- **Pension sharing order**: this shares the value of the **member’s** pension between the **member** and the former spouse, dividing it at the date of **divorce** and putting part or all in the former spouse’s name. The pension scheme **trustees** may allow the former spouse to become a **pension credit member** of the relevant scheme and must allow him or her to transfer his/her **pension credit** to another scheme.
Dodd-Frank
The Dodd–Frank Wall Street Reform and Consumer Protection Act. *Dodd-Frank* is the US equivalent of *EMIR* and requires certain types of *Over The Counter (OTC) derivatives* transactions to be cleared. It also introduces certain risk mitigation and reporting obligations on *derivatives* transactions with a US nexus.

Double taxation
The payment of tax twice, for example, once at the point of payment and again at the point of receipt. *Double taxation* commonly occurs where the recipient of benefits resides in a different country from the country in which the payment is made. Countries may voluntarily enter into *double taxation* agreements to prevent tax being levied twice in these circumstances.

Drawdown pension/drawdown
The ability of an individual with *defined contribution* benefits to leave their funds invested and withdraw them over time as and when they choose (subject to the terms of the relevant product).

See also *fixed drawdown; flexi-access drawdown; flexible drawdown*. 
Early leaver
A person who ceases to be an active member of a pension scheme before his scheme’s normal retirement date and does not receive his benefits immediately. Early leavers have certain statutory rights that vary depending on how long they were in pensionable service before leaving the scheme.
See also deferred member; preservation; preserved benefits.

Early retirement
Occurs when a member starts receiving his pension before his scheme’s normal retirement date. An early retirement pension is often actuarially reduced to reflect early payment. Retirement before age 55 is not generally permitted by HMRC except in the case of certain occupations, in cases of ill-health or where transitional protection which is specific to minimum pension ages applies.
See also ill-health early retirement.

Earnings
See remuneration.

Earnings cap
A limit applied to the amount of a member’s earnings that could be taken into account before 6 April 2006 for the purposes of determining the member’s contributions and benefits. Before 6 April 2006, HMRC automatically applied an earnings cap to a member who joined an approved scheme established on or after 14 March 1989, and to all new members of existing schemes on or after 1 June 1989. From 6 April 2006 this restriction was removed. However, it may have continued to apply to members through the operation of transitional A-day regulations or where a scheme’s rules have been amended to introduce a scheme-specific earnings cap.

EIOPA
The European Insurance and Occupational Pensions Authority, which is an independent advisory body to the European Parliament, the Council of the European Union and the European Commission.
**Eligible jobholder**

A worker who has to be automatically enrolled into a **qualifying pension scheme** by his employer when the **auto-enrolment** requirements apply to that employer.

An **eligible jobholder** is a person who is:

- working, or ordinarily working, in the UK
- aged at least 22 and below **state pension age**, and
- in receipt of earnings equivalent to more than the earnings trigger (£10,000 for 2015/16 and 2016/17, and subject to annual review) from the employer in a relevant **pay reference period**

An **eligible jobholder** who has been automatically enrolled into a **qualifying pension scheme** has a statutory right to opt out of that pension scheme. However, he will generally need to be re-enrolled automatically by his employer approximately every three years.

See also **auto-enrolment; automatic re-enrolment; qualifying pension scheme**.

**Employer covenant**

This term describes a **sponsoring employer’s** financial position, ability and legal obligation to fund its pension scheme.

**Employer-financed retirement benefits scheme (EFRBS)**

An **EFRBS** is a pension scheme which is not a **registered pension scheme**, and so does not benefit from the same tax privileged status. Before 6 April 2006, an **EFRBS** was known as a **funded unapproved retirement benefits scheme (FURBS)** or an **unfunded unapproved retirement benefits scheme (UURBS)**.

See also **disguised remuneration**.

**Enhanced lifetime allowance**

The **lifetime allowance** applicable to an individual who is entitled to primary protection.
**Employer-related loan**

**Occupational pension scheme** resources cannot be invested in an **employer-related loan**. In accordance with section 40 of the Pensions Act 1995, **employer-related loans** include:

- loans to the employer
- shares or other securities issued by the employer or by any person who is connected with, or an associate of, the employer
- certain employer-related investments

This restriction does not apply in respect of **small self administered schemes** (SSASs) and **self-invested personal pension plans** (SIPPs).

**Enhanced protection**

A form of protection that was available to **members of registered pension schemes** to protect the benefits they accrued before 6 April 2006 from the **lifetime allowance charge**. **Enhanced protection** was available (up to 5 April 2009 only) to all individuals regardless of whether or not their **accrued benefits** at 6 April 2006 exceeded £1.5m.

An individual with **enhanced protection** can lose it in certain circumstances (eg if a relevant benefit accrual occurs).

See also **fixed protection; fixed protection 2014; fixed protection 2016; individual protection; primary protection**.

**Enhanced transfer value (ETV) exercise**

An exercise relating to a **defined benefit occupational pension scheme** where **members** are offered an incentive by the employer in return for transferring their benefits out of the scheme.

See also **incentive exercise; pension increase exchange (PIE)**.

**Entitled worker**

A worker whose earnings are equal to or less than the equivalent of £5,824 per year in a relevant **pay reference period** (in the 2016/17 tax year). An **entitled worker** must be given the opportunity to join a workplace pension scheme, but this does not have to be a **qualifying pension scheme** and they are not entitled to receive employer **contributions** or a minimum level of benefits.

See also **eligible jobholder; non-eligible jobholder**.
**Equalisation**
The effect of the 17 May 1990 Barber judgment was that, from that date, pension schemes were obliged to operate so as to provide equal benefits for men and women.

The most immediate effect on schemes was that normal retirement dates which had generally been 60 for women and 65 for men, mirroring the state pension age, were “equalised” to the normal retirement dates of the advantaged sex, generally 60. This would remain the position until schemes changed their rules to reflect a different normal retirement date going forward, known as closing the Barber window. Some schemes did not carry out this equalisation exercise in a legally effective way.

It has long been unclear whether, and if so how, GMPs should be equalised. The Government has said it believes GMPs should be equalised but there is currently no settled method of doing this.

See also Barber window; guaranteed minimum pension (GMP); GMP equalisation.

**Equal access**
A term used to describe the requirement under the Pensions Act 1995 for gender equality with respect to entry conditions to pension schemes.

**Equal treatment**
The principle requiring gender equality with respect to contributions and benefits for men and women.

**Equivalent pension benefit (EPB)**
A benefit that an employer must provide for an employee whose employment was contracted-out of the former state graduated pension scheme.

**Ethical investment**
See socially responsible investment.
European Long-Term Investment Funds (ELTIFs)
A new investment fund framework designed for investors who wish to put money into companies and projects for the long term. ELTIFs only invest in businesses that need money to be committed to them for long periods of time and investors are therefore not able to withdraw money until the specified end date of their investment. ELTIFs are classified as AIFs and must be managed in accordance with the rules of the AIFMD.

European Markets and Infrastructure Regulation (EMIR)
Regulation (EU) No 648/2012 on OTC derivatives transactions, central counterparties and trade repositories. EMIR is a European regulation which requires certain types of OTC derivatives transactions (including those entered into by pension scheme trustees) to be cleared through a CCP. In addition, EMIR also sets out risk mitigation techniques for uncleared trades and reporting requirements for OTC and exchange-traded derivatives.

Exchange
The Pensions Regulator’s online system for work-based pension schemes. This allows schemes to be registered and scheme information and events (such as notifiable events, breaches of the law etc) to be notified electronically to the Pensions Regulator.

Exchange-traded derivative
A derivatives contract which is traded on a recognised exchange. Only members of the exchange are permitted to enter into such contracts. Non-members can transact through a broker member of the exchange. Exchange-traded derivatives are not traded over-the-counter.

Ex-gratia benefit
A benefit provided by an employer that it is not legally obliged to provide.

Exclusion clause
See exoneration clause.
**Exoneration clause**

A clause in pension scheme rules providing protection for trustees by exonerating them from liability in respect of certain acts or omissions, including liability for breach of trust in certain circumstances. The terms **exoneration clause** and **exclusion clause** are used interchangeably.

See also **exclusion clause**; **indemnity clause**; **trustee liability**.

**Expression of wish**

It is common for a member who is entitled to a lump sum payable on his death to complete an **expression of wish** form, to indicate who should receive the **lump sum death benefit**. The lump sum death benefit will normally be held under a discretionary trust, to avoid liability for inheritance tax. Where the death benefit is payable under a discretionary trust, the trustees are not bound to follow the member’s expression of wish form.
Ff
Fair deal

The non-statutory guidance originally issued by HM Treasury in 1999, which sets out the pension protection policy that public sector bodies should follow when transferring staff to a private sector employer or a voluntary sector body. In October 2013, HM Treasury issued new fair deal guidance which made significant changes to the method of protection and the scope of public sector employees covered by the guidance.

Prior to October 2013, fair deal was addressed to central government and the NHS, but in practice was commonly used across the public sector, in particular in relation to outsourcing contracts, as well as re-lets of such contracts. It sought, in broad terms, to protect the pension rights that accrued whilst in public sector employment as well as future pension rights. This protection was achieved by the new employer keeping the staff in the same public service pension scheme (where possible – see admission body), or by providing the employees with access to a broadly comparable pension scheme.

From October 2013, the new guidance extends the application of fair deal so that, in addition to central government departments, agencies and the NHS, maintained schools (except where covered by other arrangements applicable to local government such as the Best Value Pensions Direction), academies and other parts of the public sector under the control of government ministers where staff are eligible to be members of a public service scheme are also covered. Significantly, the new guidance expects the new employer to offer continued access to the same public service pension scheme, and the Principal Civil Service Pension Scheme, the NHS Pension Scheme and the Teachers’ Pension Scheme have all been amended to permit private sector employers to participate where the guidance requires this.

See also Best Value Pensions Direction for equivalent requirements for best value authorities.

FATCA

The Foreign Account Tax Compliance Act. FATCA requires US persons to report their financial accounts held outside of the US, and requires foreign financial institutions to report to the Internal Revenue Service about their US clients.

FCA Handbook

A collection of sourcebooks (general and fund specific) containing provisions made by the FCA that need to be complied with by entities regulated by the FCA.
**Financial Assistance Scheme (FAS)**

The Financial Assistance Scheme was established by the Government in May 2004 to provide financial assistance to members of underfunded defined benefit schemes that started to wind-up, usually between 1 January 1997 and 5 April 2005, where their employer cannot make up the shortfall, and is no longer legally obliged to do so.
Financial collateral

A collateral arrangement in the form of cash or financial instruments.

Financial counterparty (FC)

Financial counterparties are subject to the clearing obligation introduced by EMIR. This requires them to clear certain OTC derivatives transactions through a CCP. In addition, they are subject to the other obligations under EMIR. Pension schemes are generally financial counterparties, but are able to take advantage of a three year transitional period before they are required to clear.

Financial promotion

An invitation or inducement to engage in investment activity that is communicated in the course of business.

Financial Services Register

A publicly available register located on the FCA’s website which includes details about authorised funds and their operators such as contact details, permissions and persons holding controlled functions. It also includes details of other authorised entities such as trustees, depositaries and recognised funds.

Financial support direction

Where an employer participating in a defined benefit pension scheme is a service company or is ‘insufficiently resourced’ (ie its assets are broadly worth less than 50 per cent of its share of the scheme’s buy-out deficit), the Pensions Regulator has the power to direct a person ‘connected’ or ‘associated’ with that employer (such as a parent company) to put financial support (eg cash contributions or a guarantee) in place in respect of the scheme.

See also anti-avoidance; contribution notice.
Fixed protection
This is a form of tax protection provided for under the Finance Act 2011. The standard lifetime allowance was reduced from £1.8m to £1.5m on 6 April 2012. However, individuals who registered for fixed protection before 6 April 2012 retain a lifetime allowance of £1.8m.

Individuals who have registered for fixed protection must not build up any further benefits under registered pension schemes (except within certain limits), otherwise they will lose their protection. Those benefiting from primary protection or enhanced protection may not also benefit from fixed protection.

See also enhanced protection; fixed protection 2014; fixed protection 2016; individual protection; individual protection 2016; lifetime allowance; lifetime allowance charge; primary protection.

Fixed protection 2014
A form of tax protection provided under the Finance Act 2013. Individuals who expected their pension savings to be worth more than £1.25m could obtain fixed protection 2014 until 5 April 2015. This means that their lifetime allowance will remain £1.5m despite the reduction of the standard lifetime allowance to £1.25m from 6 April 2014.

Individuals who have registered for fixed protection 2014 must not build up further benefits under registered pension schemes (except within certain limits), otherwise they will lose their protection.

Fixed protection 2016
A form of tax protection available when the lifetime allowance is reduced to £1m from 6 April 2016. Individuals who expect their pension savings to be worth more than £1m and who do not already have primary protection, enhanced protection, fixed protection or fixed protection 2014 as at 6 April 2016 can obtain fixed protection 2016 by registering online with HMRC on or after that date. This means that their lifetime allowance will remain £1.25m despite the reduction of the standard lifetime allowance to £1m from 6 April 2016.

Individuals who wish to rely on fixed protection 2016 must not build up further benefits under registered pension schemes (except within certain limits) after 5 April 2016, otherwise they will lose their protection. There is no deadline for registration, but the individual must have a valid registration reference number at the time their benefits are tested against the lifetime allowance in order to rely on the protection.

See also individual protection 2016.
Flexi-access drawdown

From 6 April 2015, some or all of the funds due to a member under a registered money purchase arrangement may be transferred into a drawdown product and designated as being available for flexi-access drawdown. Where this is done, the member will be able to keep the designated funds invested and withdraw them as cash as and when they choose to (subject to the terms of the relevant drawdown product).

A member will normally be entitled to take a tax-free pension commencement lump sum equal to one third of the amount that they designate for flexi-access drawdown (the overall effect being a 25% tax-free lump sum).

Flexible apportionment arrangement

An arrangement under which some or all of the liabilities attributable to an employer under a defined benefit multi-employer pension scheme can be transferred to another participating employer. A flexible apportionment arrangement can be entered into where the transferring employer will cease to employ any active members of the scheme in the near future or where it has already ceased to employ any active members. It can be used to reduce to nil the section 75 debt that is payable by the transferring employer when it exits the scheme. Trustees are required to notify the Pensions Regulator where they take a decision which will, or is intended to, result in a flexible apportionment arrangement taking effect.

See also apportionment; approved withdrawal arrangement; regulated apportionment arrangement; withdrawal arrangement.

Flexible benefits

This term is used in pensions and tax legislation to identify the type of pension benefits that can be used to take advantage of the new pension flexibilities introduced from 6 April 2015. For these purposes, flexible benefits are money purchase benefits, cash balance benefits, or any other type of benefit which is calculated by reference to an amount available for the provision of benefits to or in respect of the member. There are restrictions which limit the ability of members to transfer or convert defined benefits into flexible benefits.

See also safeguarded benefits.
Flexible drawdown

Before 6 April 2015, the ability for an individual to take some or all of their pension fund under a defined contribution scheme as cash. Under flexible drawdown there is no limit on the amount of income that the member can withdraw at any time. An individual could only qualify for flexible drawdown where they gave a declaration to their scheme’s trustees that they met a minimum income requirement and other qualifying conditions set out in the Finance Act 2004.

See also capped drawdown; drawdown pension; flexi-access drawdown; income withdrawal.

Flexible retirement

The ability for an individual to start drawing their pension from their employer’s scheme whilst continuing to work for that employer. Members can only take advantage of this option if the rules of their scheme allow them to do so.

Flight path/flight plan

A term generally used to describe a long term plan for reducing funding risk in a defined benefit scheme. It involves having an ultimate funding target (for example, self-sufficiency or buy-out) and identifying steps and timelines to reach that target, such as scheme benefit changes, putting in place contingent assets or investing in a buy-in product.

Forfeiture

Termination or suspension of all or part of someone’s benefits payable under a scheme. Forfeiture can only take place in the limited circumstances set out in sections 91-94 of the Pensions Act 1995. Forfeiture clauses in scheme rules should be distinguished from set-off or lien clauses (which are sometimes mistakenly called forfeiture clauses) which enable an employer to recover out at an individual’s benefit entitlement money due to it from the individual as a result of the individual’s criminal, fraudulent or negligent act or omission.

Franking

The practice of using occupational pension scheme rights to pay for the index linking of GMPs. This meant that any inflation-linked improvement to the GMP led to the corresponding reduction of any non-GMP benefits. The legislation to prevent this practice in relation to deferred GMPs is known as anti-franking legislation.
Fraud compensation fund
A fund designed to provide compensation to most occupational pension schemes which suffer a loss that can be attributed to dishonesty (where the loss was suffered on or after 6 April 1997). It is managed by the board of the Pension Protection Fund and financed by a fraud compensation levy payable by all eligible schemes (not just Pension Protection Fund eligible schemes).

Free standing additional voluntary contribution (FSAVC)
These are AVC arrangements that sit alongside a registered pension scheme. Historically, FSAVC schemes were used by trustees to meet the pre 6 April 2006 obligation to give members access to an AVC facility where their scheme did not offer this.

Freezing order
An order that may be issued by the Pensions Regulator in relation to a defined benefit occupational pension scheme (under section 23 of the Pensions Act 2004) where (broadly) the Pensions Regulator is considering making an order to wind-up the scheme and considers that there is an immediate risk to the interests of scheme members or to the scheme’s assets. The order directs that no further benefits can accrue under the scheme and that the scheme’s winding up may not begin.

A freezing order may also include other directions: eg no new members may be admitted and no transfers may be made. A freezing order will normally last for up to three months but it can be extended by the Pensions Regulator so that it has effect for a total period of up to six months.

Frozen scheme
A closed scheme to which no further regular contributions are payable, and under which no further benefits will accrue to members.

See also paid up scheme.

Fully insured scheme
A scheme under which the trustees have taken out an insurance policy in respect of each member which guarantees that the member will receive benefits corresponding at all times to those promised under the scheme rules.

Not to be confused with an insured scheme.
Function provider status
A mechanism under the Teachers’ Pension Scheme that allows a private contractor, providing services in connection with education functions of a local authority, to participate in the Teachers’ Pension Scheme, where the contractor employs teaching staff as a result of the transfer of those services. Since the publication of new fair deal guidance in October 2013, the range of private contractors able to participate in the Teachers’ Pension Scheme has increased as a result of the introduction of accepted employer status.

Funded unapproved retirement benefits scheme (FURBS)
Before 6 April 2006, these were mainly top-up pension schemes created to provide retirement benefits for executives in excess of those permitted from an approved scheme. They were granted limited tax relief by HMRC. Since 6 April 2006, FURBS have largely been replaced by employer-financed retirement benefits schemes (EFRBS).

Funding level
An actuarial comparison of a scheme’s assets and liabilities, usually expressed as a percentage. There are various ways of measuring the funding level of a defined benefit occupational pension scheme, including the:

– section 179/Pension Protection Fund basis
– ongoing basis
– FRSI7/IAS19 basis
– buy-out (or discontinuance) basis
– neutral basis

Future
A derivatives transaction for the sale of property of any description under which delivery is to be made at a future date at a price agreed when the contract is made.

Also known as a “forward”.

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**GAD certificate or passport**
The certificate provided by the Government Actuary’s Department (GAD), showing that a scheme fulfils the requirements to be a **broadly comparable pension scheme** in respect of one particular transaction involving the transfer of staff. A GAD certified scheme is also known as a GAD passport scheme where the certificate is valid for any transfer of staff, rather than being limited to one specific transaction.
See also **fair deal**.

**Global Investment Performance Standards (GIPS)**
A set of ethical principles that aim to achieve fair representation and full disclosure of investment performance by **investment managers**.

**GMP equalisation**
A potential legal requirement for **occupational pension schemes** that pay **guaranteed minimum pensions** (GMPs) to equalise the GMPs payable to men and women under the scheme.
See also **equalisation**.

**GN11**
This stands for Guidance Note 11, a (disapplied) guidance note for **actuaries** on the calculation of **cash equivalent transfer values**, published by the **Board for Actuarial Standards**. **GN11** ceased to apply from 1 October 2008 and has been replaced by the Pensions TAS (Technical Accounting Standard).

**GN16**
This stands for Guidance Note 16, a (disapplied) guidance note for **actuaries** on the transfer of a member’s benefits without the member’s consent, published by the **Board for Actuarial Standards**. **GN16** has now been replaced by the Transformations TAS (Technical Accounting Standard).
Good value

Trustees of schemes that provide money purchase benefits are now required, at least annually, to assess the extent to which member-borne charges and transaction costs under their scheme represent good value for members. There is no statutory definition of good value but guidance from the Pensions Regulator confirms that it is not simply a question of cost and that it also requires an assessment of the nature and quality of a scheme’s services and other benefits.

See also value for money.

Graduated pension scheme

The state earnings-related scheme that started on 3 April 1961 and terminated on 5 April 1975. It was possible for members to be contracted-out in respect of this scheme. Contracted-out benefits earned by reference to it are known as equivalent pension benefits (EPBs). The graduated pension scheme was replaced by the state earnings related pension scheme (SERPS).

See also state earnings related pension scheme; state second pension.

Group personal pension plan (GPP)

A collection of personal pension plans with the same provider in which employees of an employer participate. Each member has a separate policy with the provider, but member and employer contributions are collected by the employer and paid directly to the provider. GPPs will often be branded and packaged by the employer to resemble an occupational pension scheme. However, unlike occupational pension schemes, which are trust-based, GPPs are contract-based schemes (like any personal pension plan), set up between the provider and each individual member. GPPs are popular partly because the employer currently avoids much of the administrative and regulatory burden associated with running its own trust-based occupational pension scheme.

Guarantee bond

Often an admission body is required to provide a bond or indemnity from a regulated deposit taker or insurance company to a Local Government Pension Scheme fund to guarantee financial risks to that fund as a result of an admission agreement. Equivalent employers in other public service pension schemes (e.g. an admission body participating in the Principal Civil Service Pension Scheme, or an employer with accepted employer status in the Teachers’ Pension Scheme) may also be required to provide a bond or indemnity.
Guaranteed annuity

An **annuity** payable for life, but guaranteed for a certain period. The **annuity** is paid until the person receiving it dies. If the **annuitant** dies before the expiry of the guarantee period, the **annuity** is then paid to his **dependants** for the remainder of the guarantee period or, in certain circumstances, the balance may be paid as a lump sum.

Guaranteed annuity rates (GARs)

Minimum conversion factors to be used by a provider when an **annuity** is purchased. Many pension policies issued before 1988 offered guarantees with regard to the terms on which the cash values of the policy could be converted into pension at retirement. Subsequent falls in **annuity** rates made these guarantees valuable for policy holders and onerous for issuers. Policies which include **guaranteed annuity rates** may count as **safeguarded benefits**.

Guaranteed minimum pension (GMP)

The pension that an **occupational pension scheme** must provide as one of the conditions of contracting-out for pre-6 April 1997 service (unless it was **contracted-out** through the provision of **protected rights**). Since 6 April 2009, schemes have been able to convert **GMPs** into ordinary scheme benefits, subject to certain onerous conditions. The Government is currently considering making **GMP** conversion more straightforward in order to assist schemes with the process of **GMP equalisation**.

See also equality; **GMP equalisation**; reference scheme; reference scheme test.

Guidance from the Pensions Regulator

The **Pensions Regulator** produces guidance to help improve the administration and governance of work-based pension schemes and to promote good practice. It is aimed at helping **trustees**, employers and their advisers understand what the law requires and what the **Pensions Regulator** expects from them.

The **Pensions Regulator’s** guidance materials include:

- regulatory guidance
- statements
- an online **trustee toolkit**

See also **codes of practice**.
“The thing that really marks out Eversheds is their ability to balance technical excellence with seeing the big picture.”

Kerrie Rowland, Trustee and European Pensions and Benefits Senior Manager, GE Pension Plan
HMRC
Her Majesty’s Revenue and Customs (formed by the merger of the Inland Revenue and HM Customs & Excise on 18 April 2005).

Holistic balance sheet
The holistic balance sheet is a tool being developed by EIOPA, which could in future be used to create a harmonised EU-wide solvency framework for IORPs (including defined benefit occupational pension schemes).

Hybrid scheme
An occupational pension scheme offering both money purchase benefits and non-money purchase benefits.
IFRIC 14

IFRIC (International Financial Reporting Interpretations Committee) 14 provides guidance on:

– how entities should determine the limit in IAS19 on the amount of surplus in a pension scheme that can be recognised as an asset
– how a minimum funding requirement affects that limit
– when a minimum funding requirement creates an onerous obligation that should be recognised as a liability in addition to that otherwise recognised under IAS19

Ill-health condition

A test laid down by the Finance Act 2004, which must be met before a pension can be paid tax-efficiently to a member who is under normal minimum pension age, generally age 55. The ill-health condition is met if:

– the scheme administrator has received evidence from a registered medical practitioner that the member is (and will continue to be) incapable of carrying out the member’s occupation because of physical or mental impairment
– the member has in fact ceased to carry on his occupation

Ill-health early retirement

Occurs when a member retires on medical grounds before his scheme’s normal retirement date. In order to take ill-health early retirement a member will normally have to satisfy conditions contained in the scheme rules. For tax reasons, a member who retires before age 55 must generally also satisfy the ill-health condition. The pension payable to the member in such circumstances is often not reduced despite the fact that it is taken early.
**Improvement notice**

A notice issued by the Pensions Regulator to a person it believes is breaching or has breached certain legislative requirements. In the notice, the Pensions Regulator can direct the recipient to take certain actions, or refrain from taking certain actions, in order to remedy or prevent a recurrence of the breach. The improvement notice must identify the breach in question and the evidence which has led the Pensions Regulator to issue the notice. It must also set out the actions which the recipient must take, or refrain from taking, and the timescale for compliance. A fine may be imposed if the improvement notice is not complied with.

**Incapacity**

A physical or mental condition that prevents a member from continuing to work owing to his ill-health or disability. It is usually defined in scheme rules and its meaning can vary greatly from scheme to scheme.

See also ill-health condition; ill-health early retirement.

**Incentive exercise**

An exercise relating to a defined benefit occupational pension scheme where members are offered an incentive by the employer(s) to change the nature of their accrued benefits (eg to give up non-statutory pension increases), or to transfer their benefits out of the scheme. An employer normally makes such an offer to de-risk its pension scheme.

A Code of Good Practice in respect of incentive exercises was issued by an Industry Working Group in June 2012 and updated in February 2016.

Also referred to as an inducement exercise.

See also enhanced transfer value (ETV) exercise; pension increase exchange (PIE); total pension increase exchange (TPIE).

**Income drawdown**

The ability for a member of a scheme providing money purchase benefits to draw an income from their retirement savings, whilst leaving the balance invested.

Also known as income withdrawal.

See also drawdown pension; flexi-access drawdown.
Indemnity clause

Provides that a trustee will be reimbursed by the pension scheme or the employer in respect of certain types of liability incurred in connection with the performance of his duties. In practice, such protection is only effective if the scheme or the employer is able to pay. A scheme’s trust deed and rules will typically contain an indemnity clause as well as an exclusion/exoneration clause.

See also trustee liability; exclusion clause; exoneration clause.

Indemnity insurance

Insurance taken out to cover trustee liabilities. It is effected with an insurance company, with the premium paid either by the employer or from the scheme assets (where the scheme rules and legislation permits this).

Independent governance committee (IGC)

Providers of workplace personal pension schemes have been required to have in place an independent governance committee (IGC) to assess the value for money of their workplace personal pension schemes. In discharging this role, IGCs are under a duty to act in the interests of the active and deferred members of the relevant schemes.

Independent provider

A private sector contractor which provides clinical health care services for the NHS under certain kinds of NHS contracts and which has been approved for admission to the NHS Pension Scheme. The contractor may choose between applying for approval on a ‘closed’ basis (ie limited to employees who were eligible for membership of the NHS Pension Scheme prior to becoming employed by the independent provider) or an ‘open’ basis (ie covering all the independent provider’s employees who work wholly or mainly on NHS contracts).

Independent provider status is similar to direction order status, though the latter is most commonly used where staff are transferring compulsorily from an NHS employer under the fair deal guidance, whereas an independent provider may voluntarily seek approval in order to be able to offer membership of the NHS Pension Scheme when recruiting staff to work on NHS clinical contracts.
Independent Public Service Pensions Commission

In June 2010, the Chancellor asked Lord Hutton to chair an independent commission, commonly referred to as the Hutton Commission, to undertake a fundamental structural review of public service pension provision. The final report was published in March 2011.

Independent trustee

An individual trustee or corporate trustee independent of the sponsoring employer(s) and the members of a scheme. An independent trustee may be appointed by a scheme or by the Pensions Regulator. The Pensions Regulator maintains a list of independent trustees which it may appoint to act as a trustee of a scheme in certain circumstances.

Indexation

A mechanism to increase pensions in payment by reference to increases in a specified index of price inflation or earnings (eg the retail prices index or the consumer prices index).

Increases in preserved benefits are generally referred to as revaluation.

See also revaluation; limited price indexation.

Individual pension accounts (IPAs)

Investment vehicles designed for use by defined contribution occupational pension schemes and personal pension plans. An IPA is intended to enable a member to better manage his own investments in products such as shares, unit trusts and OEICs.
Individual protection 2014
A form of tax protection available (in addition to fixed protection 2014) when the lifetime allowance was reduced to £1.25m from 6 April 2014.

Individuals who have registered for individual protection 2014 have a personalised lifetime allowance of the value of their pension savings on 5 April 2014 subject to a limit of £1.5m. They will be able to continue accruing benefits in a registered pension scheme, should they wish, without losing this protection but would be subject to the lifetime allowance charge on any excess savings over their personalised lifetime allowance.

People may apply to HMRC for individual protection 2014 until 5 April 2017. It is possible for an individual to apply for this alongside fixed protection 2014.

See also fixed protection 2014.

Individual protection 2016
A form of tax protection available when the lifetime allowance is reduced to £1m from 6 April 2016. Individuals who register for individual protection 2016 have a personalised lifetime allowance of the value of their pension savings on 5 April 2016, subject to a limit of £1.25m. They will be able to continue accruing benefits in a registered pension scheme, should they wish, without losing this protection but would be subject to the lifetime allowance charge on any excess savings over their personalised lifetime allowance.

To rely on individual protection 2016, the individual must register online with HMRC on or after 6 April 2016. It is possible for an individual to apply for this form of protection alongside other forms of lifetime allowance protection (other than primary protection), including fixed protection 2016. There is no deadline for registration, but the individual must have a valid registration reference number at the time their benefits are tested against the lifetime allowance in order to rely on the protection.

See also fixed protection 2016.

Industry-wide scheme
A centralised pension scheme for non-associated employers in the same industry (eg the Electricity Supply Pension Scheme and the Railways Pension Scheme).
Inland Revenue limits
The restrictions on the accrual and payment of retirement benefits which were in place before 6 April 2006. A scheme’s tax approved status was conditional on compliance with these limits (among other things). Since 6 April 2006, Inland Revenue limits have been repealed, but they may continue to apply to a scheme if they have been specifically retained within the scheme’s rules (or before 6 April 2011, through the operation of transitional A-day regulations). See also approved scheme.

Insolvency
In broad terms, this means that a company is unable to pay its debts as they fall due.

Insolvency event
In broad terms, where a company or person becomes insolvent. Examples of corporate insolvency events for these purposes include:

- a company going into administration
- a voluntary arrangement being entered into by a company with its creditors
- a resolution being passed for the voluntary winding-up of a company
- a company being wound up by the court

Where an insolvency event occurs in relation to an employer that participates in a defined benefit occupational pension scheme, a debt (known as a section 75 debt) will generally become payable by that employer to the trustees of the scheme.

Insured scheme
A scheme where all the income and other assets are invested in insurance policies.

Integrated risk management
This is the term coined by the Pensions Regulator to describe the interaction between, and management of, employer covenant, investment and funding risks in relation to a defined benefit scheme.
Internal dispute resolution procedure (IDRP)
Since April 1997, occupational pension schemes have been required to have in place an internal dispute resolution procedure for the resolution of disputes between members (or their spouses, civil partners or dependants) and a scheme. A scheme may operate a one-stage or a two-stage procedure. Usually, a member can only complain to the Pensions Ombudsman after he has been through a scheme’s IDRP.
See also dispute resolution.

International Accounting Standard 19 (IAS19)
An international accounting standard, issued by the International Accounting Standards Board, that prescribes the accounting treatment for employee benefits, including pension benefits. The principle underlying the standard is that the cost of providing employee benefits should be recognised in the period in which the benefit is earned by the employee, rather than when it is paid or payable.

Investment adviser
In relation to a pension scheme, a person who is retained to provide advice as to the merits of investment opportunities or to exercise any function concerning the management of the scheme’s assets.

Investment company with variable capital (ICVC)
A form of limited company in which the equity share capital is variable, that is, it can be increased or reduced to reflect market demand for buying or selling shares. The fund/investment manager determines the price of the shares based on the net asset value of the fund.

Investment consultant
An adviser who helps pension schemes with their long-term investment strategy.

Investment fund
Generally a UCITS or an AIF.
See also pooled fund.
Investment Governance Group (IGG)
Following publication of the updated Myners principles, this body was set up to promote best practice in investment-related governance among occupational pension schemes, encourage improvements in standards and the sharing of best practice and to take responsibility for the principles of investment compliance. The IGG has also adopted the updated Myners principles in the context of the Local Government Pension Scheme, and it has published principles for investment governance of defined contribution schemes. See Myners review.

Investment manager
A person who manages investments for its clients in an account or portfolio on a discretionary basis under the terms of an IMA.

Investment management agreement (IMA)
An agreement between an investment manager and the trustees of a scheme that sets out the terms on which the manager will manage the portfolio of investments for the trustees.

Investment trust
A company listed in the UK which is approved by HMRC as an investment trust.

IORP
This stands for “institutions for occupational retirement provision”, a term used in the EU Directive 2003/41 on the activities and supervision of institutions for occupational retirement provision. An IORP means, broadly, an occupational pension scheme.
“Eversheds’ recent help at very short notice was much appreciated – as trustees we felt you provided us with the right level of support and helped us to be confident in our decisions.”

**Richard Helyer**, Trustee and Chief Underwriter and Claims Manager, Canada Life
Jobholder
For the purposes of auto-enrolment, a jobholder is a person:

– who is working, or ordinarily working, in the UK under the worker’s contract
– who is at least age 16 and under age 75
– to whom qualifying earnings equivalent to more than £5,824 per annum (in 2016/17) are payable by the employer in the relevant pay reference period

See also auto-enrolment; eligible jobholder; entitled worker; NEST; non-eligible jobholder; pay reference period; qualifying earnings.
401k plan
A type of defined contribution scheme in the USA under which employers deduct money, on a regular basis, from salaries to invest in stocks, bonds and other investments.
**Legal Entity Identifier (LEI)**

A 20 character alphanumeric code to uniquely identify an entity as required by EMIR. The intent of the LEI is to uniquely identify a legal entity on a worldwide basis. No two legal entities anywhere in the world will have the same LEI, and for any legal entity there is only one LEI to identify it.

**Liabilities**

Amounts that a scheme is obliged to pay now or at some time in the future.

**Liability driven investment (LDI)**

Managing assets to match liabilities rather than simply to maximise returns. In particular, this often means hedging interest rate, longevity and inflation risks.

**Liberation**

Where a member who is not suffering from ill-health and who does not benefit from a protected pension age receives their benefits before their normal minimum pension age, generally 55. Payment of a member’s benefits in these circumstances is an unauthorised payment and will be subject to a tax charge of at least 40 per cent.

The Pensions Regulator and HMRC have launched a campaign to prevent pensions liberation fraud, which occurs where individuals are encouraged to transfer their benefits to a pension scheme so that they can take them before age 55, but without being informed of the charges that will be applied and/or the tax consequences of doing so. In addition, in some cases funds may be stolen or invested in risky arrangements once transferred.

Also known as a “pension scam”.

**Lien clause**

A rule that allows an employer to recover out of an individual’s benefit entitlement money due from that individual to the employer as a result of their criminal, fraudulent or negligent act or omission.
**Lifetime allowance**

If an individual’s total benefits from all the registered pension schemes in which they have accrued rights exceed the lifetime allowance, a tax charge (known as the lifetime allowance charge) will be payable on the excess. The standard lifetime allowance for the 2016/17 tax year is due to fall to £1m (down from £1.25m in 2015/16). Various forms of protection (including fixed protection 2016 and individual protection 2016) are available to provide some shelter against reductions in the lifetime allowance.

See also lifetime allowance charge.

**Lifetime allowance charge**

If a member’s benefits exceed the lifetime allowance, the lifetime allowance charge is payable on the excess at the rate of 25 per cent where the excess is taken as pension, and 55 per cent where the excess is taken as a lump sum. Income tax at the member’s marginal rate is also payable on any pension payments. Scheme administrators and members are jointly liable for this tax, except where the chargeable amount arises following a member’s death. In this case, the recipient of the payment giving rise to the charge is solely liable.

**Lifetime allowance excess lump sum**

An authorised lump sum that may be paid where a member’s benefits exceed the lifetime allowance. The lump sum is subject to the lifetime allowance charge of 55 per cent.

**Lifetime annuity**

For the purposes of the Finance Act 2004, this is an annuity payable by an insurance company until the later of death and the end of a guarantee period (if any).

See also annuity; open market option.

**Limited partnership agreement (LPA)**

The constitutional document of a limited partnership, which is one type of legal structure that pension schemes may invest in. Private equity and infrastructure funds are commonly structured as limited partnerships.
**Limited price indexation (LPI)**
A method for providing capped annual increases to pensions in payment and for revaluing deferred benefits under an occupational pension scheme (excluding AVCs and money purchase benefits). LPI is usually the increase in RPI or CPI (depending on the rules of the scheme) capped at 5% or 2.5% depending on when the pension accrued.

LPI only applies in respect of service after 5 April 1997 and it is only a minimum requirement. Therefore, a scheme’s rules may provide for a higher rate of revaluation to be applied or for higher increases to pensions in payment.

**Local Government Pension Scheme (LGPS)**
The LGPS is a funded public service pension scheme and is one of the largest pension schemes in the UK. It provides retirement benefits for workers employed by local authorities and by a range of connected employers, including admission bodies. The LGPS in England and Wales switched to a CARE basis for future service benefits in April 2014; the Scottish and Northern Irish LGPS made the same change from April 2015.

See also admission agreements; public service pension scheme; public sector transfer arrangements.

**Longevity risk**
The risk that the life expectancy of scheme members increases at a greater rate than that assumed by a scheme as part of the funding process.

See also longevity swap.

**Longevity swap**
A risk management tool whereby some or all of a scheme’s longevity risk is transferred to a counterparty (the swap provider), such as an insurance company. There are two basic forms of longevity swap: a scheme specific swap (which addresses scheme related longevity risk) and an index-based swap (which is based on changes in life expectancy under a longevity index).
Low earnings threshold
The minimum level of earnings historically used in the calculation of the state second pension.

Lower earnings limit (LEL)
The minimum amount that must be earned in any period in order for an individual to accrue state pension benefits. The LEL is revised annually.

Lump sum death benefit
A cash payment arising on the death of a member. A 55 per cent tax charge will apply to payments in excess of the lifetime allowance. A lump sum death benefit is normally payable under a discretionary trust. Where it is, the lump sum will not be subject to inheritance tax.

See also lifetime allowance charge; lifetime allowance excess lump sum; pension protection lump sum death benefit.
Marginal tax rate
This refers to the amount of income tax an individual has to pay on their income. An individual’s marginal tax rate varies depending upon how much taxable income they receive in a tax year. As income increases, the amount received may be taxed at a higher rate. Generally, an individual’s marginal tax rate will be the highest tax band to which the individual is subject.

Market value
The price at which an asset might reasonably be expected to sell on the open market.

Master/feeder structure
One or more feeder funds will invest into the same master fund. They will be set up with broadly the same investment objectives and strategies, but will allow different tax treatment for investors in different jurisdictions. These are typical in hedge fund structures.

Master trust
An occupational trust-based pension scheme which has been established to provide benefits to workers of employers that are not connected and where each employer has a separate section.

Material detriment test
A test contained in section 38A of the Pensions Act 2004. Under this test the Pensions Regulator can issue a contribution notice to an employer (or a connected or associated person) who was party to an act (or a failure to act), that occurred on or after 14 April 2008, which has detrimentally affected in a material way the likelihood of members receiving their accrued benefits under a defined benefit occupational pension scheme. A statutory defence is available where (broadly) a person can demonstrate that:

– before becoming a party to the act or failure, they gave due consideration to the potential for the act or failure to have a materially detrimental impact on the likelihood of members receiving their accrued benefits
– they took all reasonable steps to eliminate or minimise any potentially detrimental effects that the act or failure might have
Material detriment test continued

– it was reasonable for them to conclude, having regard to all the relevant circumstances, that the act or failure would not have a material detrimental effect on the likelihood of members receiving their accrued benefits

A code of practice and guidance on the material detriment test has been published by the Pensions Regulator.

See also anti-avoidance; contribution notice; Pensions Regulator.

Maximum employer contributions

There is generally no limit on the amount that employers can pay into registered pension schemes. Tax relief may have to be spread over a number of years if an employer’s contributions to a registered pension scheme are significantly higher than in the previous tax year.

See also maximum member contributions.

Maximum member contributions

There is generally no limit on how much a member can pay into a defined contribution scheme including AVCs. However, a member will only obtain tax relief on contributions (including employer contributions) up to the higher of:

– £3,600 gross, and
– the individual’s relevant UK earnings which are chargeable to income tax for that tax year

Relievable contributions paid by or on behalf of a member into a defined benefit scheme, the value of benefit accrual are subject to the annual allowance charge where the value of the contributions (or accrual) exceeds the annual allowance.

See also annual allowance; annual allowance charge; tapered annual allowance.

Member

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

See also active member; deferred member; pension credit member; pensioner.
**Member-nominated director (MND)**
A director of a corporate trustee who is selected by the members of an occupational pension scheme in accordance with the requirements of the Pensions Act 2004 and the relevant code of practice.

See also member-nominated trustee.

**Member-nominated trustee (MNT)**
A trustee selected by members of an occupational pension scheme in accordance with the requirements of the Pensions Act 2004 and the relevant code of practice.

See also member-nominated director.

**Minimum funding requirement (MFR)**
The statutory funding requirement that used to apply to defined benefit occupational pension schemes, before the introduction of the more onerous statutory funding objective (which has applied to scheme valuations from 22 September 2005). Under the MFR, the market value of a scheme’s assets should not be less than its actuarial liabilities (where both were calculated using a prescribed actuarial method and prescribed assumptions).

**Minimum income guarantee (MIG)**
The minimum income that the state previously guaranteed those over state pension age would receive. This was replaced by pension credit from 2003.

**Modification of subsisting rights**
See detrimental modification; protected modification; section 67.

**Money purchase**
This means, broadly, benefits calculated by reference to contributions made by or on behalf of a member, together with any interest/investment return. A member who is entitled to money purchase benefits may (subject to the rules of the scheme) take them as cash, purchase an annuity, enter income drawdown or do a combination of these.
**Money purchase (continued)**

*Money purchase* is defined differently in different areas of legislation. A key statutory definition of "*money purchase* benefits" is in section 181 of the Pension Schemes Act 1993. Under this definition, in order to be a *money purchase* benefit, a benefit must be calculated solely by reference to assets which must at all times match the value of the benefit to which a *member* is entitled. This means that a *money purchase* scheme should not have a deficit.

The Finance Act 2004 divides benefits for tax purposes into "*defined benefits*", "*cash balance*" and "other *money purchase*". "*Money purchase* benefits" in this context means, broadly, benefits the rate or amount of which is calculated by reference to an amount available for the provision of benefits to or in respect of the *member*. Under this HMRC tax definition *cash balance* is a subset of *money purchase* whereas under other DWP legislation such as the Pension Schemes Act 1993 *cash balance* may be considered a form of *defined benefit*.

See also *defined contribution; cash balance*.

**Moral hazard**

See *anti-avoidance*.

**Mortality risk**

See *longevity risk*.

**Mortality swap**

See *longevity swap*.

**Myners review**

The review conducted by Paul Myners, which concluded in March 2001, into the investment practices of institutional investors in the UK. The Myners report set out a number of voluntary principles for institutional investors (including the *trustees* of *occupational pension schemes*) in respect of their investment practices. As a result of scrutiny of institutional investments, a new set of Myners principles for pension *trustees* was published in 2008. The principles for best practice in investment decisions are now more flexible and high-level. They remain voluntary, but *trustees* are expected to comply, or explain why they do not. See also *Investment Governance Group*.
NEST
NEST (National Employment Savings Trust) is a trust based defined contribution occupational pension scheme run by NEST Corporation.

Employers can use NEST to meet their auto-enrolment duties. Alternatively, an employer may use a different pension scheme to meet its auto-enrolment duties, provided it is a qualifying pension scheme.

NEST has a public service obligation, which means that it is required to accept all employers that want to use it as a pension scheme to fulfil their auto-enrolment obligations.

See also auto-enrolment; master trust.

National Insurance Contributions Office (NICO)
The department within HMRC that collects national insurance contributions and maintains national insurance records.

Neutral basis
An approximate actuarial estimate of the value of a scheme’s liabilities using the same method and assumptions that are used to calculate a scheme’s technical provisions but with any margin for prudence removed. Required in valuations by the Pensions TAS.

NFC+
A non-financial counterparty which exceeds the clearing threshold under EMIR and is therefore subject to the clearing obligation.

NHS Pension Scheme (NHPS)
An unfunded public service pension scheme which provides benefits for staff employed by an NHS employer or in the provision of NHS services, including those who are the subject of a transfer order, and those employed by an independent provider or by an employer which has obtained a direction order.

Further to the recommendations of the Independent Public Service Pensions Commission, the NHPS switched to a CARE basis for future service benefits from April 2015.

See also direction order; independent provider; transfer order.
Non-contributory scheme
A pension scheme to which members are not required to contribute.

Non-eligible jobholder
A non-eligible jobholder may be either:

- a worker whose earnings are more than the equivalent of £5,824 per year but less than or equal to £10,000 per year in a relevant pay reference period (in the 2016/17 tax year) and who is aged between 16 and 75
- a worker whose earnings are more than the equivalent of £10,000 per year in a relevant pay reference period (in the 2016/17 tax year) and who is aged between 16 and 22 or state pension age and age 75

A non-eligible jobholder is not entitled to be enrolled automatically into a qualifying pension scheme but they must be given the opportunity to opt in to a qualifying pension scheme. Where they do so, they will be entitled to receive the minimum level of employer contributions or benefits and the employer should treat them in the same way as an eligible jobholder.

See also auto-enrolment scheme; eligible jobholder; entitled worker.

Non-financial counterparty (NFC)
A counterparty to a derivatives transaction which is not a financial counterparty and is therefore not subject to the clearing obligation under EMIR. An NFC will however need to clear its OTC derivatives if it is categorised as an NFC+. NFCs will be subject to the risk mitigation and reporting requirements under EMIR.

Non-UCITS retail scheme (NURS)
An authorised fund that is not established under the UCITS Directive. The investment and borrowing powers of a NURS are more relaxed than a UCITS but not as flexible as a QIS.

Normal minimum pension age (NMPA)
The earliest age at which a member of a registered pension scheme can normally start to receive their benefits. The normal minimum pension age is age 55. However, members who are suffering from ill-health or who have a protected pension age may be able to take their benefits before age 55, subject to satisfying certain conditions.

See also protected pension age; ill-health condition; ill-health early retirement.
**Normal pension age (NPA)**

Under section 180 of the Pension Schemes Act 1993 this is the earliest age at which a **member** can receive pension benefits (excluding **GMPs**) without needing anyone’s consent, and ignoring any special early retirement provision, for example, on grounds of ill-health.

**Normal retirement date (NRD)**

The date specified in a scheme’s rules on which a **member** normally becomes entitled to receive unreduced retirement benefits. This can be different from a **member’s normal pension age**.

**Notifiable events**

**Trustees** and employers of **occupational pension schemes** which are eligible for entry to the **Pension Protection Fund** are required to notify the **Pensions Regulator** when certain events occur in respect of their scheme and/or one of the **participating employers**. When a **notifiable event** occurs, **trustees** and/or the employer(s) are required to notify the **Pensions Regulator** as a matter of urgency.

The **notifiable events** regime is designed to give the **Pensions Regulator** early warning of situations where the security of **members’ benefits** could be prejudiced and where schemes might need to be transferred to the **Pension Protection Fund**. A **code of practice** on this topic has been published by the **Pensions Regulator**.

**Guarantors** under a **withdrawal arrangement** or an **approved withdrawal arrangement** are also required to notify the **Pensions Regulator** of the occurrence of certain events.

**Notification of preliminary conclusions**

A draft **determination** that is normally issued by the **Pensions Ombudsman** towards the end of an investigation. It is designed to give the parties a final opportunity to comment before the **Pensions Ombudsman** makes his final **determination**.
**Occupational pension scheme**

In broad terms, a pension scheme established in the UK by an employer or a group of employers to provide retirement and other benefits to, or in respect of, any or all of the employees of that employer or group of employers. The term ‘occupational pension scheme’ is defined in the Pension Schemes Act 1993 and the Finance Act 2004. The statutory definitions differ slightly, and they apply in different circumstances.

**Occupational Pensions Regulatory Authority (OPRA)**

OPRA was the UK regulator of occupational pension schemes for the period 1997–2005. It was replaced with effect from 6 April 2005 by the Pensions Regulator.

**Offering memorandum**

The document which sets out the legal and commercial terms on which an investor will be investing in a fund. The offering memorandum is similar to a prospectus and tends to be used in the context of investments in private equity funds.

**Ongoing basis**

A means of measuring scheme funding which measures the ability of a scheme to pay members’ benefits as they fall due.

**Open-ended investment company (OEIC)**

A pooled investment vehicle that is structured as a limited company in which investors can buy and sell shares. OEICs share certain similarities with both investment trusts and unit trusts, but there are also important differences. In the UK, an OEIC is an ICVC, which is an authorised fund.

**Open market option**

This is the term used to describe a member’s right to choose the insurance provider from which to purchase an annuity.

**Operator**

The manager of an investment fund who carries on the regulated activity of operating a CIS.
Option
A right under a derivatives contract to acquire or dispose of an asset.

OPRA
See Occupational Pensions Regulatory Authority.

Overseas pension scheme
A pension scheme that is not a registered pension scheme, which is established in a country outside the UK and which meets certain statutory requirements.
See also recognised overseas pension scheme.

Over-the-counter (OTC)
A derivatives contract is described as being over-the-counter where it is traded by parties directly with each other rather than through a recognised exchange. OTC derivatives enable parties to tailor the terms of the contract or trade to match their particular requirements.
See also exchange-traded derivative.
**Paid up scheme**

A fully paid up scheme is a closed scheme where no further contributions are payable, no further benefits accrue and members are entitled to preserved benefits. The scheme assets continue to be held by the trustees to be used in accordance with the scheme rules. A fully paid up scheme has assets sufficient to buy-out its preserved benefits.

See also frozen scheme.

**Partial buy-out**

The process by which some (but not all) of a scheme’s liabilities are transferred to an insurance company.

See also buy-out.

**Participation agreement**

An agreement which was introduced following the publication of the revised fair deal guidance in October 2013 and which is used to grant accepted employer status to an organisation or body under the Teachers’ Pension Scheme. It permits the organisation or body to provide continued access to the scheme for employees who have been compulsorily transferred under an outsourcing contract. It allows a wider range of private contractors to participate than had previously been allowed to participate with function provider status.

**Participating employer**

Broadly, an employer that employs members of an occupational pension scheme. A participating employer is bound by the terms of the scheme (as set out in the trust deed and rules) and is under certain statutory obligations in respect of the scheme.

See also deed of participation; section 75 debt.

**Part-time workers**

Workers who are protected from less favourable treatment by their employers (compared to the treatment of full-time employees) unless any difference in treatment can be objectively justified. This protection covers both access to a pension scheme and the benefits provided by it.

See also discrimination; equal treatment.
Past service
Pensionable service in respect of a member completed before a specified date.

Past service benefit
A benefit that a member has earned in respect of his past service. See also accrued rights; subsisting rights.

Past service reserve
Generally, the value of a member’s benefits calculated using his pensionable service completed to date and actuarial assumptions that include an allowance for projected increases in the member’s pensionable earnings.

Pay reference period
This is the period over which an individual’s earnings have to be assessed to determine an individual’s status for auto-enrolment purposes. Pay reference periods are also relevant when assessing whether an employer’s auto-enrolment scheme meets the statutory minimum contribution requirements for auto-enrolment purposes.

Payment schedule
A document setting out the amount and due dates of contributions by members and sponsoring employers to a defined contribution scheme. See also schedule of contributions.

Pension boards
Following the recommendations of the Independent Public Service Pensions Commission, each public service pension scheme is now required to have a pension board, containing equal numbers of member and employer representatives. The function of the pension board is to assist the scheme manager in ensuring that the scheme complies with all applicable legal requirements, including any requirements imposed by the Pensions Regulator. Schemes such as the Local Government Pension Scheme, which are administered on a local level, are generally required to have a pension board for each fund.
Pension commencement lump sum
A tax free authorised lump sum that may be paid to a member of a registered pension scheme when the member becomes entitled to payment of a pension from the scheme, a lifetime annuity or income drawdown. The lump sum cannot be paid before the member has reached their normal minimum pension age (except in certain circumstances of ill-health), and the other conditions set out in paragraph 1 of Schedule 29 to the Finance Act 2004 must also be met.

Pension credit
This term means both:
– the tax credit which replaced the minimum income guarantee
– the pension benefits attributable to an ex-spouse or former civil partner of a member following the making of a pension sharing order

Pension credit member
An ex-spouse or former civil partner who is entitled to receive benefits under a pension scheme following the making of a pension sharing order.

Pension debit
The amount of pension benefits given up by a member and allocated to the member’s ex-spouse or former civil partner when a pension sharing order is made in respect of the member.

Pension fund pooling vehicle
A tax exempt unit trust, designed to enable employers to pool the assets of pension funds in different jurisdictions for investment purposes. These were designed by HMRC as a response to competition from European investment managers, and to ensure tax transparency for pension fund investors.

Pension guarantee
An arrangement whereby an individual’s pension is guaranteed for a period of time (typically no more than 10 years after the pension started), so that if the recipient dies within that period their pension will continue to be paid to the recipient’s surviving spouse, civil partner or dependant for the remainder of the guarantee period. In certain circumstances, the balance may be paid as a lump sum.
Pension increase
An increase to a pension that is in payment, either as a result of indexation, specific requirements of scheme rules, or the exercise of a discretion.

Pension increase exchange (PIE)
A type of incentive exercise relating to a defined benefit occupational pension scheme where members (normally pensioners) are given the opportunity to choose an increased flat-rate pension in return for forgoing non-statutory pension increases.

See also enhanced transfer value (ETV) exercise; incentive exercise; total pension increase exchange (TPIE).

Pension input amount
The amount that is compared with the annual allowance to determine whether a member has to pay the annual allowance charge. The pension input amount in respect of a member is calculated in accordance with sections 229-237 of the Finance Act 2004. There are different methods of calculation depending on the type of pension scheme.

See also annual allowance; pension input period; total pension input amount.

Pension input period
The period over which the pension input amount for a member is measured, determined in accordance with section 238 of the Finance Act 2004. From 6 April 2016, pension input periods are aligned with the relevant tax year.

Pension Protection Fund (PPF)
A fund established by the Government to pay compensation to members of eligible defined benefit occupational pension schemes, where there is a qualifying insolvency event in relation to the employer and where there are insufficient assets in the scheme to cover PPF levels of compensation. Schemes that began to wind up before 6 April 2005 are not eligible to enter the Pension Protection Fund but may be able to enter the Financial Assistance Scheme.

See also Financial Assistance Scheme; notifiable events; PPF levy.
Pension protection lump sum death benefit
An authorised lump sum that can be paid in accordance with section 168 and Schedule 29 of the Finance Act 2004 from a defined benefit registered pension scheme on the death of a member. The lump sum must not exceed the capital value of the member’s pension when it came into payment, less any instalments already paid. The member must have specified, before his death, that the lump sum is to be treated as a pension protection lump sum death benefit.

Pension Schemes Registry
A register maintained by the Pensions Regulator which contains details of all occupational pension schemes and personal pension plans, including current and any former scheme names, the scheme address, the names and addresses of the trustee(s) and the status of the scheme’s membership and benefits. The purpose of the register is to enable individuals to trace their pension benefits.

Pension sharing
See pension sharing order.

Pension sharing order
A court order that splits the pension rights of the parties on divorce, nullity of marriage or the dissolution of a civil partnership.
See also pension credit; pension credit member; pension debit.

Pension Wise
A free and impartial guidance service set up by the Government to help individuals make informed choices about what to do with their retirement savings.
The guidance service can be accessed online at www.pensionwise.gov.uk, by telephone, or through the Citizens Advice Bureau or TPAS. It is available to individuals aged 50 or over who have a defined contribution pension.
**Pensionable earnings**
The earnings used to calculate a member’s benefits and/or contributions. A scheme’s rules should set out what counts as pensionable earnings in respect of a member. This may include:

- basic salary
- overtime
- bonuses
- commission

Also known as pensionable salary.

**Pensionable employment**
See pensionable service.

**Pensionable salary**
See pensionable earnings.

**Pensionable service**
Period of employment during which an individual is (or was) an active member of an occupational pension scheme. In a defined benefit scheme this period will normally be used to calculate the member’s benefit entitlement. It may also be referred to as pensionable employment.

See also added years.

**Pensioner**
A scheme member or dependant of a member who is currently receiving a pension from a pension scheme.

**Pensions Ombudsman**
An independent person appointed under statute who investigates complaints of maladministration and disputes of fact or law, brought by scheme members (including prospective members) or their spouses, civil partners and dependants, against the trustees, managers or sponsors of a pension scheme.

The Pensions Ombudsman has the power to award compensation for losses suffered and for distress and inconvenience. The Pensions Ombudsman is assisted by the Deputy Pensions Ombudsman.

See also determination; dispute resolution; PPF Ombudsman.
Pensions Regulator

The Pensions Regulator was established under the Pensions Act 2004 and replaced OPRA with effect from 6 April 2005. Its statutory objectives are to:

- protect the benefits of members of work based pension arrangements (whether trust or contract-based)
- reduce the risk of calls on the Pension Protection Fund
- in the exercise of its scheme funding powers, minimise the adverse impact on the sustainable growth of an employer
- promote the good administration of work-based pension schemes
- maximise employer compliance with the automatic enrolment legislation

The Pensions Regulator is also responsible for overseeing and regulating the governance and administration of public service pension schemes.

To achieve its objectives, the Regulator has extensive powers, including:

- the provision of guidance, education and assistance to pension schemes and their advisers
- the power to issue:
  - improvement notices
  - third party notices
  - freezing orders
  - prohibition orders
  - contribution notices
  - financial support directions
  - restoration orders

See also anti-avoidance; codes of practice; material detriment test.

Permitted investments

Types of investments that trustees are allowed to make under their scheme’s rules and in accordance with legislation. This also refers to the investments stipulated by HMRC in connection with SSASs and registered pension schemes.

Personal pension plan (PPP)

A pension plan provided by an insurance company directly to an individual.

See also appropriate pension scheme; group personal pension plan; self-invested personal pension.
**Phased annuity**
See **segmentation**.

**Pooled fund**
Unlike a **segregated mandate**, a **pooled fund** involves a number of individual investors investing in the same fund and contributions being aggregated for the purposes of investment. Investors in **pooled funds** can benefit from economies of scale, a broader selection of investment opportunities and lower management expense than they might be able to obtain on their own.
See also **investment fund**.

**Pooled pension investment (PPI)**
A system of investing a pension fund in a range of stocks, shares and other investments.
See also **individual pension account (IPA)**.

**PPF compensation**
The benefits paid to **members** whose **defined benefit occupational pension scheme** has transferred into the **Pension Protection Fund** are known as **PPF compensation**. Compensation for **members** over **NRD** or who retired on ill-health grounds is broadly 100% of scheme benefits. Compensation for **other members** is generally 90% of benefits subject to a cap.

**PPF levy**
An annual levy payable to the **Pension Protection Fund (PPF)** by all eligible schemes (broadly, all **defined benefit** and **hybrid occupational pension schemes**). It is one of the ways the PPF funds **PPF compensation** and comprises the risk-based levy and the scheme-based levy.
See also **contingent asset; Pension Protection Fund**.
PPF Ombudsman (PPFO)
An independent person appointed under the Pensions Act 2004 who considers:

– matters where the board of the Pension Protection Fund has already reviewed its decision
– complaints of maladministration about the way people and their cases have been handled by the Pension Protection Fund
– appeals against decisions issued by the scheme manager of the Financial Assistance Scheme

The PPF Ombudsman is assisted by the deputy PPF Ombudsman.
See also Pensions Ombudsman; Pension Protection Fund.

Pre-LEI
An LEI issued in the interim implementation phase whilst the global legal entity identifier system (GLEIS) becomes fully operational.

Preservation
The principle of UK pensions law that protects members of a pension scheme who leave pensionable service before normal pension age from being treated less favourably than those who remain in pensionable service.
See also preserved benefits.

Preserved benefits
Benefits that a member has already accrued from an occupational pension scheme when he ceases to be an active member before his normal pension age (including when the scheme closes to future accrual) and which are ordinarily payable on retirement.
Primary protection

Under transitional arrangements, a member whose pension benefits were valued at more than £1.5m on 6 April 2006 could register with HMRC to have those rights protected from the lifetime allowance charge even though those rights exceeded the lifetime allowance. This is known as primary protection. The individual received an increased lifetime allowance based upon the value of their pre-6 April 2006 benefits. Any benefits in excess of the individual’s increased lifetime allowance will be subject to a lifetime allowance charge. A member must have registered with HMRC by 5 April 2009 to obtain primary protection.

See also enhanced protection; fixed protection; fixed protection 2014; fixed protection 2016; individual protection 2014; individual protection 2016.

Principal Civil Service Pension Scheme (PCSPS)

An unfunded public service pension scheme for civil servants and for individuals employed by an admission body which participates in the PCSPS under an admission agreement. The scheme has several benefit structures depending on when the member joined, including classic, classic plus, premium, partnership and nuvos. The nuvos section is a career average arrangement and was introduced with effect from 1 July 2007.

Further to the recommendations of the Independent Public Service Pensions Commission, a new career average scheme for all civil servants was introduced from April 2015.

Principal employer

The sole sponsoring employer of a scheme or, where there are several employers participating in a scheme, a particular employer that usually has special powers or duties under the scheme’s trust deed and rules, such as appointing and removing trustees, amending the scheme’s trust deed and rules, and determining when winding-up should be triggered. The principal employer also typically negotiates on behalf of all the participating employers with a scheme’s trustees on matters such as scheme funding and investment.

See also sponsoring employer.

Priority liabilities

Benefits and other liabilities that are given precedence when a scheme is being wound-up.

See also priority order; winding-up.
Priority order
This refers to the order in which liabilities should be met if, when a scheme is being wound up under the scheme rules, the assets are insufficient to cover all liabilities. Section 73 of the Pensions Act 1995 provides an overriding, statutory priority order of benefits to be secured on the winding-up of a defined benefit occupational pension scheme. The statutory priority order has been amended several times, meaning that it varies depending on the date of commencement of the winding-up.
See also priority liabilities.

Prohibition order
An order made by the Pensions Regulator prohibiting a person from being a trustee of a particular occupational pension scheme. If the person is a trustee when a prohibition order is issued, the order has the effect of removing him. This means that a deed of removal is not required to effect such a removal.
See also suspension order.

Prospective member
An individual, not yet a member of his employer’s pension scheme, who is entitled to join or who may become eligible to join that scheme in the future.

Prospectus
The document which sets out the legal and commercial terms on which an investor will be investing in a fund. A prospectus is similar to an offering memorandum and tends to be used in the context of investments in authorised and listed funds.

Protected modification
A modification to an occupational pension scheme that would or might result in:
– any subsisting right that is not a right or entitlement to money purchase benefits becoming, or being replaced with, such a right or entitlement
– the reduction of any pension in payment
See also section 67.
Protected pension age

From 6 April 2010, normal minimum pension age increased from 50 to 55. However, those with a protected pension age continue to be able to take their benefits before age 55, subject to satisfying certain conditions. Broadly, a member will have a protected pension age where the member was in the scheme on 5 April 2006 and under the scheme rules in force as at 10 December 2003 and 5 April 2006 was able to take their benefits without consent before age 55.

See also normal minimum pension age.

Protected rights

The minimum level of benefits that a contracted-out money purchase (COMP) scheme was required to provide to a member. Protected rights were calculated on a defined contribution basis, using the investment proceeds of the money paid into the scheme as minimum contributions or minimum payments. Protected rights were abolished and all statutory references were deleted on 6 April 2012. However, some schemes’ rules may still contain protected rights provisions.

Prudence

In the context of scheme specific funding, trustees must adopt a prudent approach to the calculation of their scheme’s technical provisions. The Pensions Regulator has previously stated that in this context, it interprets prudence as taking a margin on the cautious side of a best estimate (or expected value).

Public sector transfer arrangements

The arrangements of the public sector transfer club.

Public sector transfer club

A group of occupational pension schemes (not all of which are public service pension schemes) that operate in the public sector. The club allows easier movement of staff within the public sector by operating an agreed reciprocal basis for transfer payments.
Public service pension scheme
An occupational pension scheme primarily providing benefits for public sector workers. The rules are contained in regulations or similar delegated legislation. Examples include the Local Government Pension Scheme, NHS Pension Scheme, Principal Civil Service Pension Scheme and Teachers’ Pension Scheme.

Public service pension scheme governance
The Public Service Pensions Act 2013 introduced key provisions on scheme governance affecting all of the main public service pension schemes. Since April 2015, the Pensions Regulator has been formally responsible for setting the standards of governance and administration in relation to those schemes. Each scheme is required to appoint a scheme manager and establish a pension board to ensure compliance with the legislation.
Qualifying earnings

For the purposes of auto-enrolment, this means gross earnings (including salary, wages, commission, bonuses and overtime) which are more than £5,824 per annum and not more than £43,000 per annum (2016/17 figures, reviewed annually). For example, an employee with earnings of £10,000 per annum will have qualifying earnings of £4,176 per annum and an employee with earnings of £5,000 will have no qualifying earnings. To qualify as a jobholder for auto-enrolment purposes, an individual must be paid qualifying earnings (measured on a pro rata basis) within a pay reference period. Minimum employer contributions to a qualifying pension scheme that is a money purchase scheme will generally have to be higher than 1 per cent of qualifying earnings (rising to 3 per cent of qualifying earnings in April 2019).

See also auto-enrolment; eligible jobholder; entitled worker; jobholder; non-eligible jobholder.

Qualified investor scheme (QIS)

An authorised fund that is neither a NURS nor a UCITS and in which only experienced investors can invest. It has more flexibility with regard to choice of investments and borrowing than a NURS or a UCITS.

Qualifying pension scheme

A workplace pension scheme that meets certain minimum quality requirements and which can be used by an employer as an auto-enrolment scheme.

See also auto-enrolment; auto-enrolment scheme.

Qualifying recognised overseas pension scheme (QROPS)

A recognised overseas pension scheme that has given certain information and undertakings to HMRC, and is therefore able to receive a recognised transfer.

Qualifying service

The service of a member used when determining whether the member is entitled to short service benefit.
Recognised overseas pension scheme
An overseas pensions scheme that meets specified requirements and is recognised by HMRC. HMRC maintains a list of such schemes.
See also overseas pension scheme; qualifying recognised overseas pension scheme.

Recognised scheme
A fund constituted outside the UK which is recognised by the FCA as being subject to adequate regulation in its home state. An overseas scheme can only be marketed to the general public in the UK if it is recognised by the FCA.

Recognised transfer
The transfer of an amount representing accrued rights in a registered pension scheme to another registered pension scheme or to a qualifying recognised overseas pension scheme.

Recovery plan
Trustees must put in place a recovery plan if their scheme does not meet the statutory funding objective (SFO). The recovery plan must set out how quickly the SFO will be met. The recovery plan must be appropriate having regard to the nature and circumstances of the scheme and the sponsoring employer. Any recovery plan must be submitted to the Pensions Regulator for approval within a reasonable period after it is put in place or revised.

Reference scheme
The theoretical scheme against which the benefits of a contracted-out salary related (COSR) scheme were compared to ensure that the COSR scheme provided benefits at least equal to the reference scheme, in order to remain contracted-out between 6 April 1997 and 5 April 2016.
See also reference scheme test; contracted-out.

Reference scheme test
The test previously carried out to compare the benefits provided by a contracted-out salary related (COSR) scheme with those under the reference scheme. The scheme actuary of a COSR scheme was required to certify that the scheme met the reference scheme test.
See also reference scheme; contracted-out.
Refund of excess contributions
A payment to a member from a registered pension scheme. It is paid where a member has made contributions to their pension arrangements in that year which exceed the annual allowance.

Refund of member contributions
Since 1 October 2015, such refunds may only automatically be given to members who leave an occupational pension scheme with pensionable service of less than three months in the case of defined benefit schemes and thirty days in the case of money purchase schemes. Members of defined benefit schemes with between three months' and two years' pensionable service can opt for either a refund of their contributions or a transfer value.

See also short service refund lump sum.

Registered pension scheme
Since 6 April 2006, a pension scheme must be registered with HMRC to receive favourable tax treatment. Before 6 April 2006, a scheme that received favourable tax treatment was known as an approved scheme.

Registered pension scheme return
An online form submitted via Exchange which captures information that the Pensions Regulator uses to identify schemes where there is a risk or potential risk to members’ benefits or the Pension Protection Fund. This information is also used to ensure that the Pensions Regulator’s register of pension schemes is accurate, and to calculate levies due from schemes.

The Pensions Regulator shares this information with the Pension Protection Fund, the DWP and the Pension Tracing Service. Trustees of registered pension schemes (or managers of all non-trust-based registered pension schemes) must complete a scheme return and submit it to the Pensions Regulator.

Defined benefit schemes, or defined contribution schemes with 12 or more members, need to complete a scheme return annually. Triennial scheme returns are required for defined contribution schemes with fewer than 12 members.

Registration
The process of obtaining registered pension scheme status from HMRC.
Regulated activity

The Regulated Activities Order (RAO) sets out a list of regulated activities. Anyone carrying out a regulated activity must be approved to do so by the FCA or the PRA; ie the FCA or the PRA gives permission to carry out the regulated activity (unless the person is exempt under one of the exclusions set out in the Regulated Activities Order).

Regulated apportionment arrangement

An arrangement under the rules of a multi-employer scheme that provides for an exiting employer’s section 75 debt to be calculated by reference to something other than its proportionate share of the scheme’s deficit calculated on a buy-out basis. Where the section 75 debt specified in the arrangement is less than the buy-out amount, the shortfall must be apportioned to one or more of the remaining employers. The arrangement can only be used where a scheme has entered an assessment period or where it is likely to do so within the next 12 months. The arrangement requires the approval of the Pensions Regulator and it may be vetoed by the Pension Protection Fund.

See also apportionment; approved withdrawal arrangement; flexible apportionment arrangement; scheme apportionment arrangement; withdrawal arrangement.

Regulated modification

A detrimental modification or protected modification.

See also section 67.

Regulator

See Pensions Regulator.

Relevant annuity

For the purposes of Part 4 of the Finance Act 2004, this is a non-increasing single-life annuity (ie an annuity that ends on the recipient’s death) without a guaranteed term.
Relevant benefit accrual
The test that is applied to those who have registered for enhanced protection to ensure that their benefits have not increased above the prescribed limits set by HMRC. If relevant benefit accrual has occurred the individual will lose their protection. An individual with fixed protection, fixed protection 2014 or fixed protection 2016 will similarly lose their protection if any benefit accrual occurs under a registered pension scheme, though the definition of what counts as benefit accrual is somewhat different in this case.

Relevant lump sum
For the purposes of a benefit crystallisation event, a relevant lump sum is any of the following:

– pension commencement lump sum
– serious ill-health lump sum
– lifetime allowance excess lump sum
– uncrytallised funds pension lump sum

Relevant lump sum death benefit
For the purposes of a benefit crystallisation event, a relevant lump sum death benefit is either of the following:

– defined benefit lump sum death benefit
– uncrytallised funds lump sum death benefit

Relevant statutory scheme
A statutory scheme that was either established before 14 March 1989, or established after that date and registered by HMRC as a scheme with provisions corresponding to those of an approved scheme. A relevant statutory scheme which was in existence at 6 April 2006 automatically became a registered pension scheme at that date.

Remuneration
In a defined benefit scheme, each member’s pension is typically related to the value of the member’s salary. HMRC often refers to this as remuneration. As far as scheme rules or an employer’s policy are concerned, it can include or exclude bonuses, commission and other fluctuating emoluments.
**Reportable events**

A scheme administrator must report certain events to HMRC. These are referred to as reportable events and include:

- unauthorised payments made to either a member or employer
- the winding-up of a scheme
- the payment of pension before normal minimum pension age

**Repurchase transaction (Repo)**

An agreement between a seller and buyer for the sale of securities, under which the seller agrees to repurchase the securities, or equivalent securities, at an agreed date and, usually, at a stated price or vice versa. Repos are generally documented by way of a global master repurchase agreement.

**Restoration order**

The Pensions Regulator can make a restoration order in respect of a transaction involving a scheme (not including a money purchase scheme) if:

- the employer becomes insolvent
- the transaction is one at an undervalue entered into with a person on or after 27 April 2004

The purpose of a restoration order is to restore the scheme funding level to the position it would have been had the transaction not been entered into.

See also anti-avoidance; contribution notice; financial support direction.

**Retail prices index (RPI)**

An indicator of price inflation, this index has traditionally been used to assess or limit elements of the indexation of pensions in payment and revaluation of deferred benefits. Depending on the scheme’s rules, the relevant index from 2011 may be the consumer prices index (CPI) rather than the retail prices index (RPI).

See also consumer prices index (CPI).
**Retail prices index (Jevons) (RPIJ)**
An indicator of price inflation which has been published by the office for National Statistics since March 2013. It uses the same calculation basis as the consumer prices index and the same basket of goods as the retail prices index.

**Retained benefits**
Benefits acquired from previous employment (or self-employment) that must in some cases be taken into account when calculating benefits from membership of a current pension scheme. Retained benefits were a material feature of the old system of approval, but are less significant under the current tax regime for registered pension schemes.

**Retirement annuity contract**
An annuity contract that was established before 1 July 1988 between an insurance company and a self-employed individual or a person in non-pensionable employment. From 1 July 1988, retirement annuity contracts were replaced by personal pension plans.

**Revaluation**
The requirement to increase deferred pensions under an occupational pension scheme. Legislation imposes a minimum level of revaluation in the calculation of GMP and of preserved benefits other than GMP. Historically, revaluation of defined benefit pensions was calculated by reference to the increase in the retail prices index. From 2011, depending on a scheme’s rules, revaluation may be calculated by reference to the consumer prices index rather than the retail prices index. Revaluation of money purchase benefits requires the member to be credited with the investment return on his retirement account, less administrative expenses.

**Revalued earnings**
For the purpose of calculating benefits, these are earnings that have been subject to indexation.

**Revalued earnings scheme**
A scheme in which the benefits are based on revalued earnings for a given period, a notable example being S2P.
Risk sharing scheme
A pension scheme that shares risks (such as investment performance and increasing life expectancy) between the employer and the members.

Rule of 85
The rule under the Local Government Pension Scheme that allows its members to retire at any time between 60 and 65 years of age with an unreduced pension where their age and pensionable service (in whole years) adds up to at least 85. The Rule of 85 was removed from 1 October 2006 for new members. Existing members as at 1 October 2006 benefit from transitional protection, which will apply to benefits earned before either 1 April 2008 or 1 April 2016, depending on the member’s age.
Safeguarded benefits
Benefits other than money purchase or cash balance benefits. In general, therefore, these will be defined benefits.

Before the trustees or managers of a pension scheme can allow a member to convert safeguarded benefits into flexible benefits or to transfer them into another pension scheme or arrangement which will provide flexible benefits from the transfer payment where such safeguarded benefits have a value of more than £30,000, the trustees or managers must first check that the member has received independent financial advice from an adviser regulated by the FCA.

Safeguarded rights
Previously used to refer to the part of a pension credit attributable to the contracted-out benefits of a member. The Pensions Act 2008 abolished the safeguarded rights requirements with effect from 6 April 2009.

Not to be confused with safeguarded benefits.

Salary related
The term used where a member’s benefits are calculated by reference to his salary.

Salary sacrifice
An agreement between an employer and employee in which the employee gives up his entitlement to part of his future salary in exchange for the employer providing him with a non-cash benefit, eg childcare vouchers or the employer agreeing to pay the equivalent amount as a contribution into a pension scheme. The main benefit of entering into a salary sacrifice arrangement is that it can reduce the amount of national insurance contributions that the employer and employee have to pay, as these will in future be calculated by reference to the employee’s lower salary.
**Scam/pension scam**

Where an attempt is made to trick people into transferring their pension savings to another, often bogus, arrangement without accurate information being given about the charges and tax consequences.

Some of the tactics used include offering free pension reviews, health checks and promises of better returns on savings and upfront cash.

The Government has published a range of “scorpion” themed materials to alert pension scheme members to the risks of pension scams.

See also liberation.

**Schedule 3 order**

An order issued under Schedule 3 to the Pension Schemes Act 1993, under which the Government decides by how much preserved benefits should increase between a member leaving a scheme and his normal pension date. It was formerly known as a section 52A order.

**Schedule of contributions**

The trustees of a defined benefit occupational pension scheme must ensure that they have in place a schedule of contributions at all times. The schedule of contributions should set out the rates and due dates of contributions to the scheme from the participating employers and the members (including contributions due under a recovery plan and contributions to cover expenses).

Normally, trustees will need to agree the schedule of contributions with the scheme’s principal employer.

The schedule of contributions must be certified by the scheme actuary and must be revised periodically by the trustees. The schedule of contributions must be submitted to the Pensions Regulator for approval within ten working days after it has been prepared or revised.

See also payment schedule; recovery plan; statutory funding objective.

**Scheme accounts**

Trustees of an occupational pension scheme are required to prepare audited accounts in respect of their scheme within seven months of the end of the scheme year to which they relate. The Pensions Regulator has the power to impose fines and penalties on trustees who fail to comply with this duty.

See also scheme auditor.
Scheme actuary
A named actuary appointed by the trustees or managers of an occupational defined benefit pension scheme under section 47 of the Pensions Act 1995. Statutory responsibilities of the scheme actuary include:
– producing a scheme’s actuarial valuation
– completing the required certification for contracted-out salary related schemes
– certifying a scheme’s schedule of contributions and recovery plan
– certifying the basis for transfer values
– reporting material breaches of statutory responsibilities by the employer or trustees to the Pensions Regulator
See also section 47 appointment letter.

Scheme administrator
Under the Finance Act 2004, the scheme administrator (for tax purposes) in respect of a registered pension scheme is given various responsibilities, including:
– making returns to HMRC in respect of any income tax due from the scheme
– accounting for tax on certain benefits paid out of the scheme

The scheme administrator (for tax purposes) will generally be a scheme’s trustees unless they have appointed another person to discharge this responsibility under the scheme’s trust deed and rules. The scheme administrator must make a declaration to HMRC that they understand their responsibilities, and that they intend to discharge them. Penalties apply for non-compliance.

Scheme apportionment arrangement
An arrangement under the rules of a multi-employer defined benefit scheme that provides for an exiting employer’s section 75 debt to be calculated by reference to something other than its proportionate share of the scheme’s deficit calculated on a buy-out basis. Where the section 75 debt specified in the arrangement is less than the buy-out amount, the shortfall must be apportioned among one or more of the remaining employers.

A scheme apportionment arrangement may only be entered into where the trustees do not anticipate that the scheme will enter an assessment period within the next twelve months. If this condition cannot be satisfied, a regulated apportionment arrangement must be used instead.

See also apportionment; approved withdrawal arrangement; flexible apportionment arrangement; regulated apportionment arrangement; withdrawal arrangement.
**Scheme auditor**

An auditor appointed by the trustees or managers of an occupational pension scheme under a section 47 appointment letter.

**Scheme chargeable payment**

Arises if a scheme either makes an unauthorised payment or borrows an amount that it is not authorised to borrow under the Finance Act 2004. Certain kinds of schemes (broadly, those where the member can direct or influence the investment of the scheme’s assets, such as a SIPP) may also be treated as making a scheme chargeable payment when they obtain, hold or dispose of particular kinds of property.

See also scheme sanction charge.

**Scheme pays**

A member may require their scheme to pay the annual allowance charge on their behalf (by giving the trustees notice) where:

– the charge exceeds £2,000

– the increase in the individual’s pension savings under the scheme exceeds the annual allowance during the relevant pension input period

Where a scheme pays the annual allowance charge on a member’s behalf, consequential adjustment must be made to the member’s benefit entitlement on a basis that is just and reasonable having regard to normal actuarial practice.

The requirement to pay an individual’s annual allowance charge on their behalf does not apply in certain circumstances (eg where a scheme is in a PPF assessment period or (broadly) where it would be to the “substantial detriment” of the members of the scheme).

**Scheme pension**

A pension paid from a scheme, either directly or by way of an annuity.

**Scheme return**

See registered pension scheme return.
**Scheme sanction charge**
This tax charge may be imposed on a scheme administrator if, during the course of any rolling 12-month period, the scheme has made one or more scheme chargeable payments. The charge is set at a maximum of 40 per cent of all scheme chargeable payments made in any tax year.

**Scheme specific funding**
See statutory funding objective.

**Seconded worker**
For the purposes of the legislation on cross-border schemes, this is an employee who is sent by his UK employer to work overseas for a limited period in another European Economic Area state, but who is still working under the control of the UK employer and who, at the end of that period, intends to return to work for that employer in the UK, or to retire.

See also cross-border scheme.

**Section 9(2B) rights**
Rights to benefits (other than benefits from AVCs) under a scheme which has been contracted-out (as a COSR) by virtue of section 9(2B) of the Pension Schemes Act 1993, and which are attributable to contracted-out employment after 5 April 1997 but before 6 April 2016. No new Section 9(2B) rights can be accrued after 6 April 2016, following the introduction of the single-tier state pension.

**Section 21 order**
See section 148 order.

**Section 32 policy**
Another term used to refer to a buy-out policy (normally a deferred annuity) with an insurance company. These arrangements were previously governed by section 32 of the (now repealed) Finance Act 1981.

**Section 32A policy**
A type of buy-out policy (normally a deferred annuity) provided by an insurance company to secure the protected rights of a member where a contracted-out money purchase (COMP) scheme was being wound up. Such policies were governed by section 32A (now repealed) of the Pension Schemes Act 1993.
Section 37A order
See section 109 order.

Section 47 appointment letter
The letter used to appoint advisers in accordance with section 47 of the Pensions Act 1995. Section 47 requires that certain advisers are formally appointed by the trustees of occupational pension schemes. These include legal advisers, the scheme actuary, the auditor and the fund manager.
See also scheme actuary; scheme auditor.

Section 49 scheme
See section 53 scheme.

Section 52A order
See schedule 3 order.

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Section 53 scheme
An occupational pension scheme that was formerly contracted-out, still has guaranteed minimum pensions (GMPs) or section 9(2B) rights and, therefore, remains subject to supervision by HMRC under section 53 of the Pension Schemes Act 1993. It used to be known as a section 49 scheme.

Section 67
Sections 67 to 67I of the Pensions Act 1995 restrict the modification of scheme rules if the change adversely affects members’ subsisting rights. Broadly speaking, it allows schemes to amend subsisting rights without the members’ consent where the actuarial value of the rights as a whole will be maintained. The conversion of defined benefit rights to money purchase rights or a change resulting in a reduction of a pension in payment will not meet this requirement and so will always require individual members’ consent.

See also detrimental modification; protected modification.

Section 75 debt
The statutory debt due (under section 75 and section 75A of the Pensions Act 1995) from a participating employer to the trustees of a defined benefit occupational pension scheme which is in deficit. Broadly, a section 75 debt will be triggered on:

– the winding-up of a scheme
– the insolvency of a participating employer
– a participating employer leaving a multi-employer defined benefit occupational pension scheme (or the defined benefit section of a hybrid scheme)
– a scheme being transferred to the Pension Protection Fund

A section 75 debt is currently calculated on a buy-out basis.

See also apportionment; approved withdrawal arrangement; clearance; contribution notice; flexible apportionment arrangement; regulated apportionment arrangement; scheme apportionment arrangement; withdrawal arrangement.

Section 109 order
An annual order issued under section 109 of the Pension Schemes Act 1993 that specifies the rates of increase to be applied to post-1988 GMPs in payment. It used to be known as a section 37A order.
Section 148 order
An annual order issued under section 148 of the Social Security Administration Act 1992 that, using the increase in national average earnings, specifies the rates of increase to be applied to the earnings factors on which the state second pension and GMPs are based. It used to be known as a section 21 order.

Section 179
Section 179 of the Pensions Act 2004 sets out the valuation basis for determining the level of scheme underfunding for the purposes of calculating a scheme’s risk-based PPF levy. Also known as the Pension Protection Fund valuation basis.

Section 226 annuity
See retirement annuity contract.

Secured unfunded unapproved retirement benefits scheme (SUURBS)
This is a type of scheme that is not a registered pension scheme and, since 6 April 2006, is referred to as an employer-financed retirement benefits scheme. Promises made under these arrangements are secured against assets of the company.
See also funded unapproved retirement benefits scheme (FURBS); unfunded unapproved retirement benefits scheme (UURBS).

Segmentation
The process whereby a number of schemes are set up at the same time to allow the member to draw benefits at different times (phased annuity). It is applicable to personal pension plans and retirement annuities. This is also referred to as ‘clustering’.

Segregated mandate
An investment strategy which is tailored to the investment needs of a particular client by the investment manager and is documented by way of an IMA.

Self-administered scheme
An occupational pension scheme in which the trustees or an investment manager decide how the investments are managed (as an alternative to an insured scheme or fully insured scheme).
**Self-invested personal pension (SIPP)**

A personal pension plan that allows a member to select the scheme’s investments. SIPPs are particularly attractive to the higher paid. They give the opportunity to invest in a wide range of investments other than, or as well as, insurance products, including property. Contributions to a SIPP count towards an individual’s annual allowance, and benefits from a SIPP count towards an individual’s lifetime allowance. There has recently been a growth in corporate SIPPs.

**Self-investment**

Self-investment occurs where a scheme’s assets are invested in a sponsoring employer’s shares or business. In most cases, as a result of section 40 of the Pensions Act 1995, up to a maximum of five per cent of the value of a scheme’s assets can be invested in this way, although different rules (imposed by HMRC) may apply to a small self-administered scheme.

**Serious ill-health lump sum**

An authorised lump sum which may be paid after the scheme administrator has obtained medical evidence that a member’s life expectancy is less than one year, provided that all or part of that member’s lifetime allowance is available. It must extinguish the member’s entitlement to benefits under the arrangement.

**Severe ill-health condition**

A member who satisfies the severe ill-health condition will not have his or her benefits tested against the annual allowance. A member satisfies the severe ill-health condition where he or she is suffering from ill-health which makes him or her unlikely to be able to undertake gainful work (in any capacity) before reaching state pension age.

See also annual allowance.

**Shared parental leave**

A legal right which enables a child’s mother to share up to 50 weeks of her statutory maternity leave with the child’s other parent, in return for reducing her own statutory maternity leave entitlement. Shared parental leave must be taken in the first year of the child’s life or in the first year after the child’s placement for adoption. It can be taken as a single block or in multiple blocks (where an employer permits this).
Short service benefit

Under preservation legislation, this is the pension benefit that must be provided for a member who leaves the scheme before retirement with a certain minimum period of qualifying service and does not receive an immediate pension.

Short service refund lump sum

An authorised lump sum that may be paid to a member who has completed less than two years’ pensionable service and opts to leave the scheme and take a refund of member contributions (subject to tax). This option is only available under an occupational pension scheme and different criteria apply to defined benefit and money purchase schemes.

Short-term annuity

Under the Finance Act 2004, a short-term annuity must not exceed five years.

Single-tier state pension

The pension which is to replace both the basic state pension and the state second pension for new pensioners from April 2016. The pension is set above the level of means testing, and for 2016/17 is £155.65 per week for those eligible for the full amount. Qualification for the full single-tier state pension will be 35 years’ qualifying national insurance contributions. There is transitional protection for state pension benefits accrued before April 2016.

Skilled person’s report

The Pensions Regulator can issue a notice to trustees, employers or other people involved in the administration of a pension scheme asking them to provide the Pensions Regulator with a report on specified matters. The person appointed to make the report must be approved by the Pensions Regulator and such a person must appear to the Pensions Regulator to have all the necessary skills to prepare the report.

Small lump sum commutation

An authorised lump sum that may be paid to a member of a registered pension scheme where the value of the member’s benefits under the scheme does not exceed £10,000 and certain other conditions are met. Unlike a trivial commutation lump sum, there is no need to take into account the member’s total pension rights under other registered pension schemes.
**Small self-administered scheme (SSAS)**
This is a type of occupational pension scheme. HMRC requires these schemes to meet special conditions, for example a maximum of 12 members.

Following 6 April 2006, HMRC relaxed some of the rules applying to SSASs, for example, they no longer need to have a pensioneer trustee.

**Socially responsible investment (SRI)**
Since July 2000, all occupational pension schemes must state in their statement of investment principles how, if at all, they have considered social, environmental and ethical matters in their investment strategies.

**Soft commissions, softing**
Payments on the provision of services by a broker in exchange for a guaranteed level of sales and purchases of stock in the stock market ordered by a fund manager.

**Solvency II**
The European Union directive that harmonises and codifies European Union insurance regulation.

**Sponsoring employer**
An employer legally responsible for funding an occupational pension scheme.
See also participating employer; principal employer.

**Staging date**
The first date from which an employer has to comply with the statutory auto-enrolment requirements. An employer’s staging date is determined by the number of people in its largest PAYE payroll scheme. Details are available on the DWP and Pensions Regulator websites.
Employers can confirm their specific staging date on the Pensions Regulator’s website or by calling the Regulator’s auto-enrolment helpline on 0345 600 1011.
See also auto-enrolment.
**Stakeholder pension scheme**

From October 2001 until October 2012, most employers had to offer employees access to a *stakeholder pension scheme* (or an acceptable alternative by way of an *occupational pension scheme* or a *group personal pension*). A *stakeholder pension scheme* is very similar to a *personal pension plan* but must meet minimum statutory criteria as to transfers and fees. It had to be registered with HMRC and be registered with the *Pensions Regulator* as a *stakeholder pension scheme*. Employers were not obliged to contribute to these schemes.

The requirement to offer a *stakeholder pension scheme* was abolished as a result of the introduction of *auto-enrolment* from October 2012.

**Standard lifetime allowance**

The *lifetime allowance* that will apply to an individual’s retirement savings if they do not qualify for *primary protection, enhanced protection, fixed protection, fixed protection 2014, individual protection 2014, fixed protection 2016* or *individual protection 2016*. The standard lifetime allowance for the 2016/17 tax year will be £1m.

**State earnings-related pension scheme (SERPS)**

An additional state pension for employed people that existed before 6 April 2002. People could contribute extra national insurance contributions to it once their earnings reached the *lower earnings limit*. Earners could choose to *contract-out* of SERPS by joining an appropriate *occupational* or *personal pension plan* that provided alternative and equivalent benefits. SERPS was replaced by the *state second pension* from 6 April 2002. Not to be confused with a United States SERP, which is a senior executive retirement plan.

**State pension**

A pension payable by the state on reaching *state pension age*. Calculated by reference to an earner’s national insurance contribution payment history, it was previously composed of the *basic state pension* and the *state second pension*. A new *single-tier state pension* is being introduced from April 2016.
State pension age/state pensionable age (SPA)
The age at which the state pension is normally payable. The current state pension age for men is 65. The state pension age for women is rising from 60 to 65 between April 2010 and November 2018. The state pension age for men and women is set to increase to age 66 by October 2020, age 67 by 2028 and age 68 by 2046 (but see further below).
However, the Pensions Act 2014 introduced a mechanism whereby state pension age will be reviewed every 6 years. The Government’s purpose in introducing these reviews is to ensure that state pension age is increased regularly, to reflect increases in life expectancy. The review process is intended to be underpinned by the principle that individuals should expect to spend up to one-third of their adult life in receipt of a state pension. The first review must be completed before 7 May 2017. As a result of this change, state pension age is expected to increase to 68 by the mid-2030s.

State pension offset
A reduction in a member’s pensionable earnings or his pension to take into account the amount of state pension that he receives. Also known as offset or the LEL offset.

State second pension (S2P)
A state pension that replaced SERPS and is paid in addition to the basic state pension. It is based on an employee’s national insurance contributions and earnings during his working life. Following the introduction of the single-tier state pension from April 2016, S2P will only continue to be payable to those who reached state pension age before that date.

Statement of funding principles
A written statement that trustees of defined benefit occupational pension schemes must prepare and maintain (either in consultation with the employer or with the employer’s agreement, depending on the scheme’s rules), setting out their policy for ensuring that the statutory funding objective is met in relation to their scheme. It sets out the actuarial method and assumptions to be used for the scheme’s actuarial valuation and also the approach to be adopted to rectify any shortfalls.
Statement of investment principles (SIP)

A written statement that trustees of an occupational pension scheme are required to prepare and maintain setting out the principles governing decisions about investments in relation to their scheme. Trustees are required to obtain advice from a suitably qualified person and must consult with the sponsoring employer before finalising the SIP. The SIP must be reviewed at least every three years and without delay after any significant change in investment policy.

The trustees of a scheme which provides money purchase benefits (other than AVCs) must also prepare a SIP in relation to any default arrangement under the scheme.

Statutory employer

This is an employer legally responsible for:

- meeting the scheme funding requirements for defined benefit schemes
- paying the employer section 75 debt if certain events (broadly, insolvency, winding-up, or the employer’s withdrawal from the scheme) happen
- triggering entry into the Pension Protection Fund

In 2011, the Pensions Regulator published the statement, “Identifying your statutory employer” because it was concerned that some schemes have lost their statutory employers. Without a statutory employer, a scheme could be entitled to limited or no support from its sponsors and will also be ineligible for the PPF. A scheme’s statutory employers may be different from its principal employer and participating employers.

See also principal employer; participating employers.

Statutory discharge

Occurs where a member who leaves a scheme exercises his statutory right to a cash equivalent and transfers that amount to another pension scheme or into a buy-out policy, or where trustees secure a member’s benefits in either of these ways (eg when the scheme is in winding-up). In such circumstances, the trustees of the scheme are generally discharged from their responsibilities to the member.
Statutory funding objective (SFO)
The SFO applies to all defined benefit occupational pension schemes (unless exempt) and it requires them to have sufficient assets to cover their technical provisions (ie their liabilities). A defined benefit scheme that does not meet the SFO is required to put in place a recovery plan, aimed at eliminating the shortfall, and submit it to the Pensions Regulator.
See also actuarial valuation; recovery plan; schedule of contributions; statement of funding principles; technical provisions.

Statutory money purchase illustrations (SMPIs)
Money purchase schemes (whether occupational pension schemes, stakeholder pension schemes or personal pension plans) must provide members with an annual statement setting out the value of their earned pension now and forecasted at retirement, displayed at today’s value.

Stocklending
Lending securities in return for a lending fee. Stocklending typically requires the borrower to transfer collateral.

Subsisting rights
A member’s entitlements (pensions and any other benefits already in payment) and accrued rights as set out in the scheme rules. The member’s accrued rights at a particular point in time broadly comprise the benefits accrued to him calculated as if the member’s pensionable service had terminated immediately before the benefits are calculated.
See also section 67.

Subscription agreement
See application form.

Summary funding statement
A document setting out the funding position of a scheme at the last actuarial valuation together with any changes since then. Members of schemes subject to the statutory funding objective should be issued with a summary funding statement annually, normally within a reasonable period (eg three months) from the date on which the actuarial valuation or actuarial report must be obtained.
**Superannuation**

Used by some schemes, particularly those in the public sector, to describe a member’s contributions.

**Surchargeable unauthorised payment**

A surchargeable unauthorised payment arises if, in a specified period:

– an unauthorised payment is made to a member or employer which is 25 per cent or more of the fund value, or

– unauthorised payments are made to any particular member or employer which in aggregate equal 25 per cent or more of the fund value

Where surchargeable unauthorised payments are made, all unauthorised payments made during the relevant period will be subject to the unauthorised payments surcharge.

See also unauthorised payments; unauthorised payments surcharge.

**Surplus**

Occurs where the actuarial value of a scheme’s assets is greater than the actuarial value of its liabilities. The surplus is the difference between the two and is known as an actuarial surplus.

**Surrender**

Occurs when an insurance policy is cancelled and the insurance company pays an amount known as the surrender value to the policyholder.

**Suspension order**

An order made by the Pensions Regulator suspending a named person from exercising any powers or carrying out any duties as a trustee of an occupational pension scheme covered by the order.

See also prohibition order.

**Swaps**

Swaps are bilateral contracts where the parties agree to swap future cash flow obligations (eg variable rates of interest may be swapped for fixed rates of interests). The use of interest rate swaps and longevity swaps may help pension schemes offset certain risks, such as future changes in interest rates or longevity.

See also longevity swap.
**Tapered annual allowance**

The **tapered annual allowance** is the name given to the reduction in the **annual allowance** for higher earners coming into force on 6 April 2016. Individuals with a **threshold income** above £110,000 per year and an **adjusted income** above £150,000 per year will see their **annual allowance** reduced by £1 for every £2 by which their **adjusted income** exceeds £150,000, subject to a minimum **annual allowance** of £10,000.

See also **adjusted income; annual allowance; threshold income**.

**Tax year**

The period starting on 6 April each year and ending on the following 5 April.

**Taxed Exempt Exempt (TEE)**

This is a shorthand description for a system of pensions taxation under which (broadly) tax is charged when **contributions/assets** are first placed into a pension arrangement, but thereafter neither the investment growth on the pension assets nor withdrawals to provide retirement benefits are taxable.

See also **Exempt Exempt Taxed (EET)**.

**Teachers’ Pension Scheme (TPS)**

An unfunded **public service pension scheme** for teachers, including those employed by an employer with **function provider status** or **accepted employer status**.

Further to the recommendations of the **Independent Public Service Pensions Commission**, the **TPS** switched to a **CARE** basis for future service benefits from April 2015.

**Technical Actuarial Standard (TAS)**

A **TAS** is a document published by the **Board for Actuarial Standards**. It contains principles that need to be considered when carrying out actuarial work within the scope of the **TAS**. **TASs** that relate specifically to pensions work include the Pensions **TAS**, which looks mainly at the principles around scheme funding, and the **Transformations TAS**, which addresses the transfer of **liabilities** (such as **bulk transfers**) and the modification of benefits.
Technical provisions
Under the scheme funding provisions of the Pensions Act 2004, this term is used to describe the actuarial value placed on a scheme’s liabilities.
See also statutory funding objective.

The Pensions Advisory Service (TPAS)
An independent, non-profit-making organisation that provides free information and guidance to any individual who has a complaint or dispute relating to his occupational or personal pension arrangement. TPAS also delivers guidance on retirement choices by telephone, as part of the Pension Wise service.

Third party notice
A notice issued by the Pensions Regulator to a third party. It requires specific action to be taken by that third party within a certain period of time. It can be issued where a person does not comply with certain pensions legislation as a result of another person (the ‘third party’) failing to do something, but where that failure of the third party does not breach pensions legislation. Civil penalties apply for non-compliance with a third party notice.
See also improvement notice.

Threshold income
An individual’s threshold income is relevant in determining whether the tapered annual allowance applies to them. Broadly, an individual’s threshold income is their taxable income, which includes their employment income as well as income from other sources such as rental properties and dividends, less certain allowances and reliefs. An individual’s threshold income does not include employer or employee pension contributions to defined contribution schemes or accrual within defined benefit schemes. However, salary given up in exchange for pension provision under a salary sacrifice arrangement or a flexible remuneration arrangement made on or after 9 July 2015 does need to be included.
See adjusted income; tapered annual allowance.
Top-up pension scheme
A scheme that provides a member with benefits in addition to those provided under another scheme.
See also employer-financed retirement benefit scheme (EFRBS); funded unapproved retirement benefit scheme (FURBS); secured unfunded unapproved retirement benefit scheme (SUURBS); unfunded unapproved retirement benefit scheme (UURBS).

Total earnings scheme
A type of career average scheme where a member’s pension is calculated as a specified fraction of his total remuneration while he was a contributing member of the scheme.

Total pension increase exchange (TPIE)
This is a type of liability management exercise for defined benefit schemes. Deferred members over their normal minimum pension age, generally 55, are offered an enhanced transfer value to a personal pension. This is then converted into an immediate flat rate annuity providing for no pension increases.
See also enhanced transfer value exercise (ETV); pension increase exchange (PIE).

Total pension input amount
The aggregate value of the pension input amounts in respect of each arrangement relating to an individual under any registered pension scheme of which the individual is a member.
See also pension input amount.

Transfer order
Generally, membership of the NHS Pension Scheme is available only to those employed by an NHS employer (such as an NHS trust), or, from 1 April 2014, an independent provider. However, where NHS employees transfer to a local authority under a partnership arrangement made under section 75 of the NHS Act 2006, membership may also be extended to those transferred employees by way of a transfer order.
**Transferee admission body**

A term previously used to describe a private sector employer that employs staff who have been transferred from a local authority employer and that has been admitted to participate in the Local Government Pension Scheme in accordance with an admission agreement. Such participation will often be as a result of protection under fair deal or the Best Value Pensions Direction.

**Transformations TAS**

A technical actuarial standard published by the Board for Actuarial Standards and effective from 1 October 2011. It applies to actuarial work concerning transfers without member consent, the modification of members’ accrued benefits without consent, and the transfer of liabilities without consent to an insurer on winding up. It replaced GN16.

**Transition manager**

A transition manager is appointed by asset owners, such as pension schemes, to help move investment portfolios between different managers or markets while managing market risk and reducing transaction costs. The main providers of transition management are investment banks, custody banks, asset managers and specialist firms. The transition manager will be appointed under a transition management agreement (TMA).

**Transitional A-Day regulations**

These regulations gave trustees (subject to certain conditions being met) flexibility under the post 6 April 2006 tax regime (eg permitting payments after 6 April 2006 only to the extent that they would have been permitted by HMRC before 6 April 2006). These regulations ceased to apply from 6 April 2011.

**Transfer payment**

A payment of a capital sum from a pension scheme when a member leaves a scheme. It is paid to another pension scheme, or to an insurance company where a buy-out policy is purchased for the member. A transfer payment can either be made in accordance with the scheme rules or in exercise of a member’s statutory rights. See also cash equivalent.

**Transfer value**

An amount paid as a transfer payment.
Trivial commutation lump sum

An **authorised lump sum** that may be paid to a member of a **defined benefit registered pension scheme** where the total pension rights from all of the **member’s registered pension schemes** are deemed trivial, that is less than £30,000 (and subject to certain other conditions).

See also **small lump sum commutation**.

Trivial pension

A pension that is eligible under **HMRC’s** tax rules to be exchanged for cash on the basis that it is only worth a small amount.

See also **commutation; small lump sum commutation; trivial commutation lump sum**.

Trust

Established when a person gives another cash or assets which are to be used for the benefit of a third person. A **trust** is normally established by way of a deed. The person who establishes the **trust** is called the settlor because he ‘settles’ property on another, the trustee. The **trustee** takes care of the **trust** property and uses or invests it for the benefit of the **beneficiaries** in whose favour the **trust** was established. **Occupational pension schemes** are legally required to be set up under **trust** for two key reasons: security and enforceability.

Trust corporation

A company that is appointed by the courts to act as a **trustee** or that meets the minimum requirements under the Public Trustee Act 1906 and is expected to provide professional expertise in managing trusts. In some circumstances, a **trust corporation** can act as sole **trustee** where a **corporate trustee** cannot.

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**.
Trustee knowledge and understanding (TKU)

Trustees and trustee directors of occupational pension schemes are required by law to:

– be conversant with their scheme’s governing documents including the scheme’s trust deed and rules, statement of investment principles, schedule of contributions, statement of funding principles, recovery plan and documents related to the administration of the scheme

– have knowledge and understanding of the law relating to pensions and trusts and the principles relating to scheme funding and investments

Similar requirements apply to members of pension boards of public service pension schemes.

See also trustee toolkit.

Trustee liability

Trustees are personally liable for losses suffered by their scheme as a result of breach of trust or breach of a statutory duty. This means that a trustee’s personal assets are on the line, along with the personal assets of their fellow trustees. Trustees’ exposure to liability can be reduced in a number of ways, including:

– establishing a corporate trustee

– an exoneration clause in the scheme rules

– an indemnity clause (either in the scheme rules or by way of a separate indemnity)

– indemnity insurance

Trustee toolkit

An online learning tool (www.trusteetoolkit.com) produced by the Pensions Regulator to help trustees meet the trustee knowledge and understanding (TKU) requirements. There is also a similar tool for members of public service pension boards.
TUPE

On a business sale (not a share sale), employees’ employment rights are protected by, amongst other things, the provisions of the Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE). TUPE implements the EU Acquired Rights Directive in the UK. TUPE excludes occupational pension (but not personal pension) rights from protection on a business sale provided those rights relate to “old age, invalidity or survivors’ benefits”. The meaning of this phrase is, however, a matter of some legal uncertainty.

The Pensions Act 2004 and associated regulations currently provide that where, immediately before a TUPE transfer, the transferor operated an occupational pension scheme to which it contributed, the transferee employer must (broadly) provide the transferring employees with access to:

- a final salary scheme which provides benefits worth at least six per cent of pensionable earnings for each year of employment plus the total amount of member contributions, and which does not require member contributions greater than six per cent of pensionable earnings
- a money purchase scheme (which may be an occupational or a stakeholder pension scheme) to which the employer must either make matching contributions of up to a maximum of six per cent of basic salary or must make contributions which are at least equal to the amount that the transferor was contributing immediately before the transfer

It is also open to the transferee employer and a transferring employee to agree something else at any time after the transfer.

Two-tier code

Refers to the now withdrawn Code of Practice on Workforce Matters. The aim of the code was to prevent the emergence of a two-tier workforce in cases where public sector employees were outsourced to a service provider, ensuring that new recruits working on the same contract received comparable treatment to the transferred staff, including a minimum level of pension rights.
“Eversheds always gives practical advice and [is] a wonderful team member. They definitely feel like a partner in our business.”

Susan Grady, Assistant GC, SPX Corporation
UCITS

A fund which is established in accordance with the UCITS Directive.

UCITS Directive

The European Parliament and Council Directive 2009/65/EC of 14 July 2009 (as amended) on the co-ordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities. This directive regulates those authorised funds that are not AIFs, ie it regulates UCITS funds.

Umbrella

A collective investment scheme which is composed of separate classes or designations of securities.

Unauthorised employer payment

Any payment from a registered pension scheme to or in respect of a sponsoring employer or a former sponsoring employer that is not an authorised employer payment under the Finance Act 2004.

Unauthorised member payment

Any payment from a registered pension scheme to or in respect of a member that is not an authorised member payment under the Finance Act 2004.

Unauthorised payment

An unauthorised payment is any payment made by a registered pension scheme that is not specifically authorised by the Finance Act 2004. An unauthorised payment may be an unauthorised member payment or an unauthorised employer payment. Unauthorised payments attract an automatic tax charge of 40 per cent, and in some circumstances an additional tax surcharge.

See also unauthorised payments charge; unauthorised payments surcharge.

Unauthorised payments charge

A tax charge that arises when an unauthorised payment is made by a registered pension scheme. The charge is 40 per cent of the unauthorised payment. It is payable by the recipient of the payment. An unauthorised payment can also give rise to an unauthorised payments surcharge and a scheme sanction charge.
Unauthorised payments surcharge
A tax charge that arises when a surchargeable unauthorised payment is made by a registered pension scheme. The rate of the surcharge is 15 per cent of the surchargeable unauthorised payment and is payable by the recipient of the payment. This means that a total tax payment of 55 per cent of the value of the unauthorised payment may be payable.

Uncrystallised funds lump sum death benefit
A lump sum death benefit paid in respect of a registered money purchase pension arrangement which had not, prior to the member’s death, been applied to provide the member or his dependants with retirement benefits (eg through the purchase of an annuity) or designated for payment of income drawdown. It must not exceed (and is usually equal in value to) the value of the unused money purchase account immediately before the lump sum is paid out.

An uncrystallised funds lump sum death benefit will be payable tax-free if the member dies before his 75th birthday and the lump sum is paid before the end of the period of two years beginning with the earlier of the day on which the scheme administrator first knew of the member’s death and the day on which the scheme administrator could first reasonably be expected to have known of it.

See also uncrystallised funds pension lump sum (UFPLS).

Uncrystallised funds pension lump sum (UFPLS)
An authorised cash lump sum that can be paid to a member of a registered money purchase pension arrangement, where certain conditions are met. An UFPLS can only be paid where the member is over age 55 or where they satisfy the ill-health condition under tax legislation. The first 25% of an UFPLS will normally be tax-free, with the remainder taxed at the recipient’s marginal tax rate.

See also uncrystallised funds lump sum death benefit.

Underfunding
When a scheme’s assets are insufficient to meet its liabilities.
Unfunded unapproved retirement benefits scheme (UURBS)

Since 6 April 2006, UURBS have been treated as employer-financed retirement benefits schemes, receiving similar treatment to other pension schemes that provide taxable benefits to employees.

See also employer-financed retirement benefits scheme; funded unapproved retirement benefits scheme (FURBS); secured unfunded unapproved retirement benefits scheme (SUURBS).

Unit trust

A trust set up as an investment fund in which investors purchase units. It is supervised by the FCA. The fund/investment manager determines the price of the units based on the net asset value of the fund.

Unit-linked insurance policy

A type of insurance policy for pension schemes under which the policyholder purchases units in a notional pool of assets and receives a return based on the performance of the notional pool.

Upper accrual point (UAP)

A national insurance threshold which affected the calculation of national insurance contributions between 6 April 2009 and 5 April 2016. During that period, employers and their employees who were members of contracted-out pension schemes paid the reduced contracted-out rate up to the upper accrual point only.
**Upper band earnings**

Earnings between the *lower earnings limit* and the *upper earnings limit* for national insurance contribution purposes. Benefits under SERPS are calculated by reference to *upper band earnings*.

**Upper earnings limit (UEL)**

The earnings limit above which employees pay reduced rate national insurance contributions.

**Upper Tribunal**

An independent body set up to hear references on determinations made by the *Pensions Regulator’s determinations panel*.

The *Pensions Regulator* must act in accordance with decisions of the *Upper Tribunal*. Decisions of the tribunal can be appealed on a point of law to the Court of Appeal (or the Court of Session in Scotland).
Vv
Value for money

Independent governance committees are required to assess the value for money of their provider’s workplace personal pension schemes on an ongoing basis. There is no statutory definition of value for money but it is generally accepted that it is not simply a question of cost but that it also requires an assessment of the nature and quality of a scheme’s services and other benefits. See also good value.

Vesting

See preservation.

Vested rights

In relation to active members, these are benefits they can unconditionally receive on leaving the scheme. In relation to deferred members, they are preserved benefits. In relation to pensioners, these are benefits to which they are entitled. In all cases, vested rights include, where appropriate, the related benefits for a member’s spouse, civil partner or other dependants.
**Whistleblowing**

Section 70 of the Pensions Act 2004 imposes a statutory whistleblowing obligation on trustees, administrators, employers and professional advisers. A report must be made in writing to the Pensions Regulator, as soon as reasonably practicable, of any breach of legislation relating to the scheme’s administration which could be materially significant to the exercise of any of the Pensions Regulator’s functions.

**Wholly-insured scheme**

See fully-insured scheme.

**Widower’s/widow’s guaranteed minimum pension (WGMP)**

The minimum pension that an occupational pension scheme is required to provide for the surviving spouse or civil partner of a member as one of the conditions of contracting-out (unless it was contracted-out through the provision of protected rights) for pensionable service before 6 April 1997.

**Winding-up**

Refers to the process of bringing a pension scheme to an end. The scheme’s assets are realised and used to meet the scheme’s liabilities. This is generally done by purchasing annuities for pensioners and deferred annuities for active and deferred members, or by transferring the assets and liabilities to another pension scheme, in accordance with statute and the scheme documentation. See also priority liabilities; priority order.

**Winding-up lump sum**

An authorised lump sum that may be paid to a member of a scheme that is in winding-up where the total value of the member’s benefits under that scheme is not more than £18,000. Where the member is still employed by the sponsoring employer, the employer cannot make contributions to any other registered pension scheme in respect of the member for 12 months after the winding-up lump sum is paid.
Withdrawal arrangement
An arrangement that can be entered into by a participating employer that has to pay a section 75 debt as a result of leaving a multi-employer defined benefit occupational pension scheme which is in deficit. Under a withdrawal arrangement the exiting employer must pay at least its share of the scheme’s statutory funding objective deficit, with the remainder of that employer’s full section 75 debt being guaranteed by a suitable guarantor. Pensions Regulator approval is not required.
See also apportionment; approved withdrawal arrangement.

With-profits policy
An insurance policy where the policyholder will receive a share of any surplus in the insurance company’s life insurance and pensions business.
European definitions

The following section contains a selection of pensions definitions from Belgium, France, Germany, Ireland, Italy, Luxembourg, Netherlands, Spain and Switzerland.

Please note that terms defined in this section may be defined differently in the UK section of this handbook.
Guaranteed income for the elderly (De Inkomensgarantie voor Ouderen (IGO), or La Garantie de revenus aux personnes âgées (Grapa))

This guaranteed income is an allowance paid to elderly people who do not have sufficient financial resources.

To determine whether someone has a right to this guaranteed income, all his resources will be identified. He must also comply with conditions relating to age, nationality and residence.

State pension scheme

Participation in and contribution to the state pension scheme is compulsory for all citizens and employers alike.

Private sector employees, self employed persons, and state employees have their own separate pension regulation though the government plans to harmonise these.

There is also the possibility of receiving a survivor’s pension. The main conditions to be entitled to a survivor’s pension on death of a spouse are broadly that the marriage must be at least a year long and the surviving spouse is at least 45 years of age, have a child or be at least 66 per cent permanently disabled.

Normal pension age

The normal pension age in Belgium is currently 65. It is however possible to retire earlier (but this is due to increase to 66 by 2025 and 67 by 2030), provided that the person concerned has reached a specific age and his or her total career in Belgium and in countries that have a social security agreement with Belgium is sufficiently long.

Overseas Social Security Office (Dienst voor de Overzeese Sociale Zekerheid (DOSZ) or Office de sécurité sociale d’outre-mer (L’OSSOM))

This is a federal government institution for social security under the guarantee of the Belgian state.

Private occupational pension arrangements

Private pension arrangements are generally governed by the law on occupational pensions of April 28 2003. Pension contributions by the employer are voluntary and paid to the pension fund in accordance with the terms of the policy provider.

Belgian law states that an employer should not treat those who are in similar situations differently as regards pension provision unless this is objectively justifiable. Historically this could for instance be on the basis of the difference between blue collar and white collar workers. In future, however, this distinction will no longer be possible.
Traditionally, defined benefit plans were very successful in Belgium, but defined contribution plans have recently become more dominant due to the advantages for employers.

For private group insurance schemes, the law provides a guaranteed return of 3.25 per cent on employer contributions and 3.75 per cent on employee contributions. The contributions rate can of course change and is often regulated through collective bargaining agreements at sector level. Due to the recent economics climate, it has been decided that the current percentages are too high. Key social partners have decided that, for 2016, the guaranteed return will be 1.75% on both employer and employee contributions.

There are separate regimes for company directors and the self employed.

**Third pillar (pension saving on an individual basis)**

People can also save for their retirement on an individual basis. This is encouraged by the government by means of certain tax deductions for Belgian individuals between the ages of 18 and 64.

Individuals can also make savings for their pensions in a non-tax efficient way. This is the so-called 4th pillar.

**Unemployment with an extra company benefit (previously known as bridge pension) (Stelsel van werkloosheid met bedrijfstoeslag (SWT) or Régime de chômage avec complément d’entreprise (RCC))**

This is an unemployment regime complemented by allowances at the cost of the employer.

Employees whose employment contracts are terminated at the initiative of the employer are entitled under a national collective bargaining agreement to an additional allowance, on top of the unemployment allowances, from the age of 62, provided they can prove a career of a minimum length. Collective bargaining agreements concluded at company or industry level can lower the age in a number of situations, such as for “heavy jobs”, night work, long careers or company restructuring.
France

**AGIRC & ARRCO**
The federations of the compulsory occupational pension schemes implemented and run by employee and employer trade unions. These schemes are mandatory for all employers of the private sector, in addition to the general regime or MSA regime.

ARRCO covers all categories of employees. AGIRC covers executives only (“cadres”).

These schemes are run under the "pay as you go" principle. Pension benefits are determined on the basis of a points-based system.

**Article 39 of the French Tax Code**
A type of defined benefit pension scheme in France under which an employer commits to provide a specific amount of pension to all employees or certain employees forming an objective category, conditional on the presence of the employee in the company at retirement.

These schemes are often called “top-hat schemes”.

**Article 83 of the French Tax Code**
A type of defined contribution pension scheme in France under which an employer commits to contribute on a regular basis for all employees or certain employees forming an objective category.

**Basic state pension (retraite de base)**
In the general regime, the basic state pension depends on three factors:

- the average annual salary (salary is capped to the annual social security ceiling; only the best 25 years are considered)
- the payment rate
- the total period of insurance

The maximum annual pension would amount to roughly €14,000 (excluding potential increases due to working after the legal minimum retirement age, raising three or more children or a constant attendance allowance).

**CNAVTS or CNAV (Caisse nationale d’assurance vieillesse des travailleurs salariés)**
The basic state pension scheme in the general regime, which is applicable to most employers in the private sector (except those subject to special regimes).
There are also various alternative basic schemes:

- “MSA” for farmers and agricultural workers
- some employees also belong to a company with a special regime

**Legal retirement age**

This is the age at which a beneficiary can request the payment of his pension. 62 is the legal age to benefit from the basic state pension scheme and ARRCO and AGIRC schemes (for beneficiaries born after 1955).

However, the employer cannot terminate the employment contracts of employees under 70 by reason of age.

**Payment rate (taux de la pension)**

This is the rate used in the calculation of the state pension and may be up to 50 per cent of the person’s highest income, up to certain limits.

This rate applies to beneficiaries who have reached the full payment rate age (67 for beneficiaries born after 1955) and to beneficiaries who have reached the legal age and who have been credited the required number of quarters. For beneficiaries retiring before 67 and who have not been credited the required number of quarters, a reduction applies.

**PERCO**

A type of collective retirement savings plan, implemented at company level, under which the employee can make voluntary payments and the employer can match the sums paid.
PERP (Plan d’épargne retraite populaire)
A type of pension savings offered to an individual by an insurance company to increase pension rights.

Social security ceiling
This is the reference figure to determine the benefits and categories for contributions to social security schemes. For 2016, the annual social security ceiling amounts to €38,616.

Special regimes
These are schemes implemented within certain companies (such as the gas industry, navy, mines and opera of Paris) which decided not to integrate the general regime at the time of their creation as these schemes provide for higher benefits than the general regime. In most cases, the retirement age is lower than under the general regime and the pension is determined on the basis of the salaries paid over the six months preceding the retirement date.

Top-hat scheme (retraites chapeaux)
See article 39 of French Tax Code.
Germany

Statutory pension insurance (gesetzliche Rentenversicherung)
Germany has a mandatory pension insurance system, which is equally financed by employers and employees with a total of approximately 20 per cent of the employee’s gross salary (up until a threshold of €6,200 (West)/€5,400 (East) a month in 2016).

Company pension schemes
Company pension schemes are voluntary but, if introduced, subject to the Company Pension Act. Collective company pension schemes (agreed with a union or works council, if any) are often introduced for blue-collar workers. White-collar employees often receive an additional pension promise, in particular for the part of the salary which exceeds the salary threshold mentioned above. The appropriate pension scheme is mainly a tax-related question.

Company Pension Act (Gesetz zur Verbesserung der betrieblichen Altersversorgung – BetrAVG)
The Company Pension Act regulates both employer and employee financed pension schemes. There is no requirement to offer a pension plan, but if offered it is subject to equal treatment principles. Making changes to pension schemes is complex.

Deferred compensation
Employees who are insured under the statutory pension insurance system have a legal right to convert salary components in a company pension scheme (so-called deferred compensation). The entitlement is valid up to €282 a month in 2016. Claims vest immediately.

Direct promise scheme
This involves the employer giving a direct promise of pension/contribution payments, individually or collectively. It is financed by accruals and payments are made by the employer only when the pension falls due.

Direct insurance scheme
This involves the employer taking out a life insurance with the employee as beneficiary. It is often used by smaller companies. One of the benefits is limited transfer of risk.

Pension fund (Pensionsfond)
This is similar to a staff pension fund but the amount of the promise and the actual payments can differ and the employer is liable for the difference. Investment of funds is less restricted than for direct insurance and staff pension funds and there are also wage tax benefits.
Support fund (Unterstützungskasse)
The employer pays contributions into the support fund, which is often legally connected to the company or group of companies. It is financed by consistent or increasing payments. One of the benefits is that the support fund can lend funds back to the employer.

Staff pension fund (Pensionskasse)
This is similar to pension insurance. The employer pays contributions into the (often company-owned) staff pension fund, of which the employee becomes a member. This is often used for collective pension plans and involves limited transfer of risk.

Vesting periods
Upon vesting, claims to a company pension scheme benefits will survive the termination of the employment relationship. Unless otherwise agreed, the employee generally has a vested claim if they have been members of the scheme for five years before leaving employment and are aged 25 or older at that time. From 1 January 2018, these factors will change to 3 years and age 21. Other vesting periods may apply for commitments given before January 2009.

Claims to a company pension scheme arising from employee-financed pension benefits vest immediately (see “deferred compensation” above).

Pension Protection Association (Pensions-Sicherungs-Verein Versicherungsverein auf Gegenseitigkeit – PSVaG)
The Mutual Pension Protection Association (Pensions-Sicherungs-Verein Versicherungsverein auf Gegenseitigkeit – PSVaG) is an institution the aim of which is to guarantee statutory vested claims and current pensions of employees and pensioners of insolvent companies. The employer must finance this insolvency insurance by paying contributions to the PSVaG.

Most direct insurances and pension funds are excluded from the insolvency protection of PSVaG because their insurance supervisors seek to ensure strict investment rules.
Ireland

Approved Minimum Retirement Fund
Similar to an Approved Retirement Fund, except that the original investment may not be withdrawn until age 75. Only the investment income and gains may be withdrawn prior to that age.

Approved Retirement Fund
An investment contract which enables certain members at retirement to invest the value of their accrued benefits or defined contribution account under a pension scheme (exclusive of any benefit taken as a lump sum) with a qualifying fund manager, in order to provide them with an income in retirement.

Approved Scheme
An occupational pension scheme normally established under an irrevocable trust, thus giving rise to the tax reliefs specified in the Finance Acts, and which is approved by the Revenue Commissioners under Chapter I of Part 30 of the Taxes Consolidation Act 1997.

Buy-out bond
The purchase by the trustees of a pension scheme of an insurance policy or bond in the name of a member or other beneficiaries in substitution of the member’s rights following termination of service, or on winding-up of a scheme. Under the Pensions Act, purchase of such a bond on leaving service may be at the option of the member or, in certain circumstances, at the option of the trustees.

Dependant
A person who is financially dependent on a member or pensioner or was so at the time of death or retirement of the member or pensioner. For Revenue purposes, a child of the member or pensioner may always be regarded as dependent until he or she reaches the age of 18 or ceases to receive full-time education or vocational training, if later.

Funding standard
Under the Pensions Act, defined benefit schemes are obliged to submit an actuarial funding certificate which confirms that the scheme complies with the funding standard set out in Part IV of the Act. This is designed to ensure that the scheme has sufficient funds to secure specified members’ pension rights if the scheme should have to be wound up.

If a defined benefit scheme does not meet the funding standard, the trustees must submit a funding proposal to the Pensions Authority explaining how they intend to rectify the scheme’s funding.

Investment regulations
Regulations issued under the Pensions Act setting out certain investment rules that trustees must comply with when investing the assets of a pension scheme. The relevant statutory instrument references are S.I Nos. 294 of 2006, 188 of 2007 and 455 of 2010.
**Irrevocable trust**
Such trusts are normally required by the Revenue Commissioners in order to give tax-free build up to the assets of the pension scheme. The trust has the effect of separating scheme assets from the assets of the employer.

**Letter of exchange**
This is a letter from an employer to an employee setting up a pension scheme for a single employee. The letter itself must include all the rules and powers usually contained in a trust deed and rules and must make reference to the irrevocable nature of the pension scheme in order to receive Revenue approval.

**Occupational pension scheme**
This is formally defined in the Pensions Act as a scheme which is approved under the Taxes Consolidation Act 1997 or whose approval has been applied for to the Revenue Commissioners. The term occupational pension scheme is generally used to distinguish job related pension schemes from state social welfare schemes.

**One member scheme**
A scheme which is established for one person only. That person will always be the only member and has discretion as to how the resources of the scheme are invested unless the scheme is subject to a pensions adjustment order.

**The Pensions Act**
An Act of 1990 for the regulation of pension schemes, which provides for preservation of benefits, a minimum funding standard in the case of defined benefit schemes, disclosure of information, equal treatment, defines the duties and responsibilities of trustees and established a Pensions Authority to supervise the operation of the Act. The Act has been considerably amended and extended.

**The Pensions Authority**
The statutory body set up under the Pensions Act to monitor and supervise the operation of the Pensions Act and pension developments generally.

**Preserved benefits**
This term is often used to describe any benefit emerging on termination of employment or of membership of a pension scheme, which is payable at a later date. Under the Pensions Act it has the specific meaning of that part of the benefits which must be preserved as a result of the operation of the Act.

**Qualifying service**
Defined in the Pensions Act as the service which a pension scheme member must complete before becoming entitled to a preserved benefit on leaving service. Currently, it is two years’ service including any period in a previous scheme from which a transfer value was received.
**Reckonable service**
A term defined in the Pensions Act. It is the period of a person’s scheme membership, not necessarily the whole period of employment, and excluding any time when the person was covered for death benefits only.

**Registered administrator**
A registered administrator is a person who is registered with the Pensions Authority to provide specified core administration functions for trustees of pension schemes.

**Retained benefits**
A term used by the Revenue Commissioners to denote retirement or death benefits in respect of an employee’s earlier service with a former employer or an earlier period of self-employment.

**Retirement Annuity Contracts**
A contract effected with an insurance company under Sections 784/785 of the Taxes Consolidation Act, 1997.

Applicable to the self-employed and to persons in non-pensionable employment. Sometimes called a personal pension.

**Revenue Commissioners**
The organisation charged by government with the collection of tax revenues and which, through the financial services (pensions) unit of the large cases division, monitors the operation of pension schemes which are granted tax approval.

**Section 50 Direction**
This term means a direction to reduce accrued benefits given by the Pensions Authority to the trustees of a scheme pursuant to section 50(1) or (1A) or (1B) of the Pensions Act.

**Sovereign annuity**
An annuity linked to sovereign bonds issued by member states of the European Union. The annuity payments may be reduced if the underlying reference sovereign bonds default.

**Statement of Investment Policy Principles (SIPP)**
All schemes except small schemes (ie those with less than 100 active and deferred members) must prepare a Statement of Investment Policy Principles (SIPP) every three years. The SIPP is intended to be a description of the investment policies of the trustees.

**Unfunded scheme**
A scheme under which advance financial provision for the payment of benefits is not normally made. Instead the cost of pensions is met from the employer’s current income in the same way as the salaries and wages of employees.
Italy

**Age of retirement and contributory requirements – 2016/17**
In 2016/17, the minimum age of retirement provided for under the main public regime pension, the “old-age pension”, will be 66 years and 7 months for private employees. In addition, private employees have a minimum contributory period of 20 years.

**Continuation of the contract of employment**
Once the employee has reached his age of retirement, it is possible to extend the duration of the employment contract up to age 70. However, this opportunity is granted only to employees registered by General Social Security Institutes and it is conditional on specific agreement with the employer.

**General and Special Social Security Institutes**
General Social Security Institutes are those provided for and governed by law and whose nature is public. The main General Social Security Institutes in Italy are INPS and INAIL. On the other hand, Special Social Security Institutes are those provided for by law but governed by their own regulations (e.g. CASSA FORENSE, CASSA GEOMETRI). Therefore, their nature is private and the regulations are enforceable only on those who are registered under these Special Social Security Institutes in accordance with the kind of the job performed (e.g. lawyers can only be registered by CASSA FORENSE and not by INPS).

**Incentive agreed upon the termination of the employment contract or incentive to leave**
This is an extra sum paid by the employer when it reaches an agreement with its employee to terminate the employment contract before the contractual deadline.

**Prescription period**
This is the period during which both the employer and employees can be asked by the General and Special Social Security Institutes to pay contributions. It is usually equal to 5 years or, in a few cases, to 10 years. Once this period has passed, no social security contribution are due.

**Social Security Automaticity – Art. No. 2116 of Italian Civil Code**
According to the Italian Civil Code, even if the employer does not pay social security contributions, General Social Security Institutes shall pay for private employee’s pensions and then recoup their losses from the employer.
Social security life annuity
If the employer does not pay social security contributions for several years, so as to seriously jeopardise the right of the employee to obtain a fair pension amount, the employee may claim for damages in court and a court may order the employer to pay a “social security life annuity”.

Solidarity contribution
This is a special social security contribution, usually provided “once off” by law, which is aimed at reducing General and Special Social Security Institute debts, so as to grant the payment of future pensions.

Withholding agent
According to Italian social security legislation, each employer must pay his employee’s social security contributions to the Social Security Institute. If the employer does not pay or delays social security contributions, it may incur fines of up to 40%-60% of the contributions.
Luxembourg

Assimilated periods of insurance
Periods during which the insured person did not pay any social security contributions but which are taken into account for the purpose of determining certain rights related to the eligibility and the computation of the pension etc (e.g. study periods between 18 and 27 years).

Complementary occupational pension scheme
Benefits granted, on a voluntary basis, by the employer to its employees in order to add to those of the statutory social security scheme. Employers may choose to set up a complementary occupational pension scheme for the benefit of all employees or only certain categories of employee. The law of 8 June 1999 on complementary occupational pension schemes (as modified) delivers a framework for employers to set up complementary occupational pensions.

Early old-aged pension (pension de vieillesse anticipée)
Any insured person having reached the age of 57 is eligible for an early old-age pension provided that he has contributed to the mandatory scheme for at least 480 months (without taking into account assimilated periods).

Effective periods of insurance
Periods during which the insured person is mandatorily subject to social security contribution obligation in Luxembourg. For example, the periods during which the insured person performs an occupational activity or during which he is eligible for unemployment allowances (subject to Luxembourg social security contributions).

External regime
The legal vehicle may take the form of either a group insurance, or a pension fund subject to the supervision of the “Commissariat aux assurances” or of the “Commission de surveillance du secteur financier”.

Internal regime
A regime where the pension commitments are balance sheet liabilities and where the pension benefits are monitored by the employing undertaking which is the legal vehicle that supports the pension scheme.
Legal retirement age
Any insured person having been subject to Luxembourg social security (mandatory or voluntary contributions) for a period of at least 120 months is eligible for an old-age pension at the age of 65. The employment contract automatically terminates by law when the employee reaches the legal retirement age provided that the employee is eligible for a pension.

Preretirement
– Solidarity pre-retirement (Préretraite-solidarité)
  The following are eligible for solidarity pre-retirement:
  - employees having reached the age of 57 working for companies subject to a collective bargaining agreement expressly providing for a pre-retirement scheme (this provision of the collective bargaining agreement must be approved by the Labour Minister)
  - employees having reached the age of 57 working for a company, which has directly concluded an agreement with the Labour Minister

– Adjusting pre-retirement due to operating needs of the business (préretraite-ajustement)
  Any employer may enter into an agreement with the Labour Minister to enable his personnel to be admitted to pre-retirement in the event of business closing or in order to prevent redundancies as a result of restructuring measures within the company or transformation of employment as a result of technological changes.

– Pre-retirement for employees regularly working at least 7 consecutive hours each day partly at night or working in shifts (Préretraite des travailleurs ostés et des travailleurs de nuit)
  Any employee having reached the age of 57 and who has worked for 20 years is eligible for pre-retirement provided that the work was performed:
  - on shifts according to an organisational plan
  - on a regular basis over seven hours in a row, including three hours performed between 10pm and 6am
– Phased pre-retirement (Préretraite progressive)

Any employee having reached the age of 57 working full-time:
- for companies subject to a collective bargaining agreement expressly providing for a pre-retirement scheme (this provision of the collective bargaining agreement must be approved by the Labour Minister)
- for companies, which have signed an agreement with the Labour Minister providing for such a pre-retirement scheme and who agrees to work part-time is eligible for pre-retirement benefits. The reduction of working time may not be less than 40 per cent nor exceed 60 per cent of normal working time.

Statutory pension scheme

The mandatory pension insurance system financed by employers, employees and the State. Contributions are equally split between them. The rate is 8 per cent of the employee’s total gross income for each party (24 per cent in total).

The computation of an old-age pension can be summarised as follows:

- a proportional part (“majorations proportionnelles”), which depends on the salary level of the employee, subject to social security contributions
- a lump-sum part (“majorations forfaitaires”), which is reduced by 1/40th for each missing year. As a result, the lump-sum part depends on the number of years.

The amount of an old-age pension may not be less than 90 per cent of the reference amount when the insured employee has contributed for 40 years. The amount of an old-age pension may not exceed 5/6th of five times the reference amount. The annual value of the reference amount is set at €2,085 (index 100) i.e. currently €16,162.29 (index 775.17). The minimum monthly old-age pension amounts to €1,718 and the maximum monthly old-age pension amounts to €7,957.

In Luxembourg, the gross pension replacement rate is between 82 per cent and 103 per cent, depending on the amount of the gross income of the insured person.
Netherlands

Administration agreement (Uitvoeringsovereenkomst)
The agreement between an employer and a pension provider on the administration of one or more pension agreements.

Company pension fund (Ondernemingspensioenfonds)
A pension fund affiliated to a company or a group or a pension fund affiliated to several companies or groups by merging the pension funds, originally affiliated to the separate companies or groups.

(Compulsory) Industry-wide pension fund ((Verplichtgesteld) Bedrijfstakpensioenfonds)
A pension fund for one or more sectors or sub-sectors. Such a fund is compulsory if membership is made compulsory by law.

Contributing company (Bijdragende onderneming)
A company or other body acting as employer or self-employed persons, or a combination thereof which pays contributions to a pension fund, professional pension fund or pension institution from another member state.

Deferred member (Gewezen deelnemer)
The employee or former employee who no longer acquires a pension under a pension agreement, and who, upon termination of the scheme membership, retains a pension entitlement against a pension provider.

Disability pension (Arbeidsongeschiktheidspensioen)
A monetary, fixed benefit due to disability of the employee or former employee, entitlement for which is attained after the lapse of the period specified in the first paragraph of Article 29, Sickness Benefit Act, or, if the employee or former employee receives a sickness benefit under that Act, after the lapse of the period specified in the fifth and ninth paragraphs of Article 29, Sickness Benefit Act.

Employee (Werknemer)
A person who, under a civil-law employment contract or public law appointment, performs work for an employer, not including director-major shareholders and employees who fall under the scope of a compulsory professional pension scheme as defined in the Compulsory Professional Pension Schemes Act ("Wet verplichte beroepspensioenregeling").
Entitlement to a pension benefit (Pensioenaanspraak)
The right to a pension benefit that has not yet become payable, apart from agreed conditional indexation.

General pension fund (Algemeen Pensioen Fonds (APF))
A pension provider set up to operate pension plans of several companies, company pension funds and/or non-compulsory industry-wide pension funds. In contrast to “regular” pension funds, the APF may by law administer several pension plans separately (ring fencing).

Insurer (Verzekeraar)
An insurer allowed to operate a life or non-life insurance company in the Netherlands under the Financial Supervision Act.

Old-age pension (Ouderdomspensioen)
A monetary, fixed benefit for the employee or former employee intended as a source of income in old age.

Orphan’s pension (Wezenpensioen)
A monetary fixed benefit for a child of whom the deceased employee or former employee was a parent in a family law relationship, or for the deceased or former employee’s stepchild or foster child, as a result of the death of the employee or former employee.

Partner’s pension (Partnerpensioen)
A monetary fixed benefit for the (former) spouse, (former) registered partner or (former) partner, resulting from the death of the employee or former employee.

Pension (Pensioen)
Old age pension, disability pension or ‘survivor’s pension’, as agreed between employer and employee.

Pension agreement (Pensioenovereenkomst)
The pension arrangements agreed between an employer and an employee.

Pension fund (Pensioenfonds)
A legal entity, not being a “Premiepensioeninstelling”, in which funds for at least two scheme members, former scheme members or their surviving dependants are or have been collected and are managed for the implementation of, at a minimum, a base pension scheme.

Pension liabilities (Pensioenverplichtingen)
Commitments of the pension provider based on the pension rights and entitlement to a pension benefit.
Pension provider (Pensioenuitvoerder)
A company pension fund, an “Algemeen Pensioenfonds”, an industry-wide pension fund or a “Premiepensioeninstelling” or insurer with its seat in the Netherlands.

Pension regulations (Pensioenreglement)
The rules drafted by the pension provider concerning the relationship between pension provider and scheme member.

Pension right (Pensioenrecht)
The entitlement to a pension that has become payable, excepting an agreed conditional indexation.

Premiepensioeninstelling (PPI)
A company set up to administer defined contribution schemes, or other schemes where the PPI does not bear the technical insurance risk, which are considered as occupational pension schemes under the applicable law.

Premium (Premie)
The periodic fixed structural performance, in monetary terms, owed to the pension provider and intended for the insurance of pension and associated costs.

Scheme member (Deelnemer)
The employee or former employee who is granted pension rights from a pension provider in a pension agreement.

Supervisory body (Toezichthouder)
The Netherlands Authority for the Financial Markets (“Autoriteit Financiële Markten; AFM”) or De Nederlandsche Bank N.V. (“DNB”), each insofar as charged with the performance of supervision by or under Article 151 of the Pension Act. In short, DNB is in charge of general and financial supervision and AFM is in charge of pension communication of pension providers.
Spain

Active registration with the social security administration (Alta en la seguridad social)
An individual is registered as “active” with the social security administration when they are either working or, if they are not working, the period of non-work “counts” for the purposes of active registration, for example, maternity leave. If the individual is registered as “active” they are entitled to their state pension the day after they finish work.

Active retirement (Jubilación active)
Providing certain conditions are met, an individual who has reached ordinary retirement age can opt to receive 50 per cent of his pension and supplement his income with any kind of work (part time or full time).

Contributory state pension (Jubilación contributiva)
The state pension which is calculated with reference to the social security contributions paid over the duration of an individual’s working life (providing that at least fifteen years of contributions have been made).

Common financial reductions (Coeficientes reductores comunes)
The percentage reduction applied to the calculation of pension benefits which are drawn prior to ordinary retirement age (currently eight per cent per year (pro rata for periods of less than a year) relative to the ordinary retirement age).

Countable periods (Los períodos computables)
The periods of absence from work which can still be counted as a “contribution period” for the purposes of calculating social security contributions.

Delayed retirement (Jubilación demorada)
Individuals can delay their retirement in order to continue to contribute to the value of their state pension through continued social security contributions, or alternatively they can partially retire and continue to work or flexibly retire and continue to work.

Early retirement for those registered as members of the Employment Mutual prior to 1 January 1967 (Jubilación anticipada de afiliados antes del 1.1.1967 a la Mutualidad Laboral)
Individuals who meet all the relevant requirements can retire early from age 60 if they were registered as members of the Employment Mutual prior to 1 January 1967.
Factual reason for accessing the state pension (Hecho causante de la pensión)
The factual circumstances relating to the individual, at the date of his request for the state pension, determine the amount he will receive in pension benefit and the date from which he will be eligible to receive it.

Flexible retirement (Jubilación flexible)
The combination of partial retirement with working part time hours (between 25 per cent and 75 per cent).

Minimum social security contribution period (Período mínimo de cotización)
In order to receive a minimal state contributory pension, an individual must have paid 15 years of social security contributions, two of these years must be within the 15 year period prior to the date of retirement.

Non-contributory pension (Jubilación no contributiva)
The basic state pension offered to individuals who do not qualify for the contributory state pension.

Ordinary early retirement due to involuntary termination at work (Jubilación anticipada por cese involuntario en el trabajo)
Individuals can access early retirement benefits within four years of ordinary retirement age providing that they meet all the requirements, including the requirement to have made at least 33 years of social security contributions, and the requirement that the termination of their employment has not been voluntary.

Ordinary early retirement due to the voluntary interest of the individual (Jubilación anticipada por cese en el trabajo debido a la voluntad del interesado)
Individuals can access early retirement benefits within two years of ordinary retirement age providing they have a minimum of 35 years of social security contributions.

Ordinary retirement age (Edad ordinaria de jubilación)
Ordinary retirement age in 2016 is either 65 years of age or 65 years of age and 4 months, depending on the number of years of social security contributions. Ordinary retirement age is gradually being increased to 67 years of age with effect from 1 January 2027.
Partial early retirement (Jubilación parcial anticipada)
In 2016, this option is available once an individual is either 61 years and 4 months of age or 61 years and 8 months of age (depending on the number of years of social security contributions). An individual must have a minimum 33 years of social security contributions to qualify for this and meet all the other conditions, including the condition that they are working full time at the date of application. An individual can apply to reduce their hours to work part time (between 25 per cent and 75 per cent) and will receive their pension benefit in inverse proportion to the reduction of working time. For example, if an individual works 50 per cent he will receive 50 per cent of his salary and he will receive 50 per cent of his pension.

Postponed partial retirement (Jubilación parcial diferida)
This option is available once an individual has reached ordinary retirement age. It allows an individual to continue to work part time and to draw their pension benefit in inverse proportion to the reduction of working time. This option is available to part time employees too.

Registration with the social security administration for social security contribution purposes (Afiliación)
An individual must be registered with the social security administration.

Social security contributions (Cotización)
The contributions made to the social security administration by both the employer and the employee on behalf of the employee. These contributions include an element which relates to benefits including pension benefits.

Social security contribution base (Base reguladora)
The earnings which are taken into account for the purposes of calculating the social security contributions which are based on a percentage of this amount. In 2016, for ordinary employees, the maximum amount which could be taken into account was €3,642 monthly.
Switzerland

**AVS (Alters-und Hinterlassenenversicherung - AHV)**
Old-age and survivors’ insurance (1st pillar).

**Bilateral agreements with the EU/EFTA**
Switzerland’s economic and trade relations with the EU are governed through bilateral agreements.

Switzerland adopts certain aspects of EU legislation and in exchange receives access to the EU single market.

**Bilateral agreements on social security**
These define rights and obligations of a citizen from one signatory state in relation to the social security system of another signatory state with the aim of ensuring equal treatment. They cover old-age, survivors’ and invalidity insurance but not unemployment insurance, occupational benefit plans and social welfare.

**Compulsory insured persons in a PP**
Employees who are paid a salary exceeding CHF 21,150 (by one employer per year) and who are subject to compulsory insurance against death and invalidity and AVS are also subject to a PP.

**Contributions to a PP**
Each provident institution is allowed to set its own contribution rates for employees and employers under its regulations. The employer’s contributions must be at least equal to the contributions paid by all its employees.

**Coordination deduction**
The amount of an annual salary between roughly CHF 24,675 and CHF 84,600 must be insured.

**Coordinated salary**
This is the salary between the minimum and maximum amount of the compulsory insured annual salary.

**Departure benefit (Austrittsleistung)**
On departure from a provident institution the insured person is entitled to a departure benefit. This can be before an insured event occurs when leaving the provident institution or if the person has already reached early retirement age.

**Early retirement**
An old-age pension can be claimed before reaching statutory retirement age (65). 58 is the earliest age for early retirement. A pension is paid out if the regulations of the provident institution allow for such early retirement.
LOB (Bundesgesetz über die berufliche Vorsorge - BVG)
Federal Law on Occupational Benefits.

Maximum insured amount.
Not more than about CHF 800,000 per year can be insured under a PP according to LOB.

Maximum insured amount
Not more than roughly CHF 846,000 per year can be insured under a PP according to LOB.

Old-age credits (Altersguthaben)
These credits are calculated on the coordinated salary (the percentage varies according to the age of the insured person) related to the years during which the person was insured by the provident institution.

PP (Vorsorgeplan)
Occupational benefit plan (2nd pillar). The aim is to enable insured persons to maintain their previous standard of living (ie including AVS pension it should correspond to about 60 per cent of salary immediately before retirement).

Provident institution
Employers who employ persons subject to compulsory insurance must be affiliated to a provident institution entered in the register for the occupational benefit plans or establish such an institution themselves.

Repurchasing of contribution years
Individuals moving to Switzerland and having never been registered with a Swiss PP may repurchase contributions for the 5 years following their registration with a Swiss occupational benefit institution (limited to 20 per cent of the insured salary per year).

Survivor’s pension
Surviving dependants (spouses, civil partners and children) are entitled to a survivor’s pension if the deceased was insured or received a pension at the time of death.

Vested benefit
(Freizügigkeitsguthaben)
This is the sum an insured person is entitled to upon termination of the employment relationship and withdrawal from the employee benefits institution, in the form of a withdrawal benefit.

Vested benefits account
(Freizügigkeitskonto)
This is the account to which vested benefits are transferred.
Useful contacts

**Acas (Advisory, Conciliation and Arbitration Service)**
Euston Tower
286 Euston Road
London NW1 3JJ
Helpline: 0300 123 1100
www.acas.org.uk

**Department for Business Innovation and Skills (formerly BERR and DTI)**
1 Victoria Street
London SW1H 0ET
Switchboard: 020 7215 5000
www.gov.uk/bis

**Department for Work and Pensions (DWP)**
Caxton House
Tothill Street
London SW1H 9NA
www.gov.uk/dwp

**Tribunal Services – Employment**
Telephone: 0300 123 1024
www.gov.uk/courts-tribunals/employment-tribunal

**The Pensions Advisory Service (TPAS)**
11 Belgrave Road
London SW1V 1RB
Helpline: 0300 123 1047
www.pensionsadvisoryservice.org.uk

**The Pensions Ombudsman**
11 Belgrave Road
London SW1V 1RB
Telephone: 020 7630 2200
www.pensions-ombudsman.org.uk

**The Pension Protection Fund**
Renaissance
12 Dingwall Road
Croydon
Surrey CR0 2NA
Telephone: 0845 600 2541 or (for scheme members): 0330 132 2222
www.pensionprotectionfund.org.uk

**The Pensions Regulator**
Napier House
Trafalgar Place
Brighton BN1 4DW
Telephone numbers – for queries relating to:
- Automatic enrolment: 0345 600 1011
- Pension scheme regulation and running a pension scheme: 0345 600 0707
- Levy: 0345 600 5666 (option 1)
- Scheme return, Exchange and Trustee toolkit: 0345 600 5666 (option 2)
- Whistleblowing: 0345 600 7060
www.thepensionsregulator.gov.uk

**Pension Wise**
PO Box 10404
Ashby de la Zouch
Leicestershire LE65 9EH
www.pensionwise.gov.uk
The tools of the trade
A-Z pensions law handbook

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