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The tools of the trade
A-Z pensions law handbook

2019/20

"The Tesco Trustees have built a very strong relationship with Eversheds Sutherland. Their advice is top quality and future-proofed, and is also drafted in the short, practical way we like."

Ruston Smith
Chair of the Tesco PLC Pension Scheme

"We rate our Eversheds Sutherland pensions team very highly indeed - Alpha +++. The regulated nature of pensions law does not mean that lawyers working in it cannot be forward thinking and/or innovative. Sadly few of them are which is why we value our Eversheds Sutherland team most highly."

Robert Hunt
Chair of Trustees, Veolia UK Pension Plan

"Over the past few years [the] team at Eversheds Sutherland have given our business invaluable support and advice regarding complex NHS pension matters. They are proactive and prompt in corresponding with us and to help us ... I would have no hesitation in recommending Eversheds Sutherland for pensions work."

Lynne Cook
Head of Human Resources, NRS Healthcare

"The team at Eversheds Sutherland are very experienced with a strong client focus. They are highly responsive and are good at explaining complex legislation in an understandable way, ensuring that their audience fully understands the advice being given.

They are effective listeners who are able to adapt and be flexible to different situations. They also provide innovative and thought provoking solutions and are forward thinking in approach."

Adrian Duckett
Chairman, Wales & West Utilities Pension Scheme Trustees Limited

"I have worked closely with Eversheds Sutherland for many years, across a number of different pensions, benefits and M&A projects. I highly value the speed and superb quality of their advice, which is always clear, focused, solution-driven and proactive, and more importantly, tailored for our specific needs. I like their Handbook, which translates difficult legal concepts in a succinct and easy to understand way. I would highly recommend the Eversheds Sutherland team."

Evie Slater
Pensions & Benefits Manager (Interim), MS Amlin

"I'd like to add my thanks to Eversheds [Sutherland]. It's been a huge amount of work to get here, and we really appreciate all the support and guidance throughout.

This project has been a new venture for the team here, and I appreciate we've relied heavily on [the team] - we couldn't have got to where we are in such a short timescale without all of your help."

Tom Taylor
Secretary to the Trustee of the Somerfield Pension Scheme

Preface

Welcome to the latest edition of the Eversheds Sutherland A-Z Pensions Law Handbook, our guide to pensions and investment terminology.

When I wrote the preface to last year's edition of this handbook, the BHS inquiry had recently concluded, Carillion had just collapsed with its 13 DB pension plans bound for the PPF and the DWP's DB white paper was hot off the presses. There was a feeling (in the mainstream press at least) that DB pensions were in a state of crisis.

A year later, we now see the effects of these events working their way through to legislation and guidance, with strengthened Pensions Regulator powers (including headline grabbing criminal offences for "wilful or reckless" behaviour) and a more robust and prescriptive DB funding code heading our way soon.

The other side of this coin has been an increasing focus on buy-outs and buy-ins (with Eversheds Sutherland having acted on the largest ever such deal, a £4.4bn buy-in in relation to BA's Airways Pension Scheme) and alternative forms of pension provision. The government is now keen to encourage consolidation and to regulate master trusts, the new breed of DB consolidators and potentially a brand new collective DC structure.

I believe that the UK pensions industry now stands at a real crossroads, and 2019/20 is likely to be a year of change in the way retirement benefits are structured, provided and developed. These changes are going to create risks and opportunities for corporate sponsors, trustees and fiduciaries and for insurance companies. It is with this in mind that we recently launched a new online "Future of Pensions" hub as a source of regularly updated content for our clients and contacts. I would encourage you to take a look at www.eversheds-sutherland.com/futureofpensions.

I posed a question in the preface to last year's edition: "Might 2018/19 be the year when some clarity finally emerges on GMP equalisation?" The judgment of the High Court in the Lloyds case in October 2018 has now given us at least some of the answers. We are still not at the end of the GMP equalisation story but perhaps it is now in sight. Other notable cases over the past year include the British Airways case on trustee discretions and the Safeway equalisation case, which saw Eversheds Sutherland at the European Court of Justice for an oral hearing in what could potentially be one of the last UK referrals heard there.

And on that note, I cannot fail to mention Brexit. At the time of writing, the post 29 March situation looks as unclear as ever, and seems to change by the day. By the time you receive this handbook, you may have a (slightly) clearer picture of the outcome. The immediate direct legal (as opposed to financial) effect on most pension plans is in any case likely to be limited but the impact on the wider economy will be felt by us all.

There are of course plenty of other developments on the horizon for the year ahead. The emphasis on DB and DC governance, on professional trusteeship, on the disclosure of costs and charges and on environmental, social and governance factors will no doubt grow. Across Europe, the IORP II Directive will continue to give governments and pension plans work to do (its effects are yet to be fully felt in many jurisdictions). Germany is moving to pure DC pensions for the first time and the Irish are looking closely at their own system of automatic enrolment and mastertrust regulation. Meanwhile, collective DC has its origins in the Dutch pension system, and the UK will almost certainly be able to benefit from the experiences of those jurisdictions which embraced DC earlier, notably the US and Australia.

Eversheds Sutherland is at the forefront of developing pensions legislation, regulation and policy through our involvement with key industry bodies. This work gives us – and you as our clients and colleagues – an unrivalled view over the horizon of forthcoming developments. We have a strong and growing international pensions team alongside our UK practice.

The international part of this handbook includes a selection of terminology from some of our global colleagues in Austria, Belgium, China, France, Germany, Hong Kong, Ireland, Italy, Luxembourg, the Netherlands, Norway, Poland, South Africa, Spain, Switzerland and the US.

I hope you find this handbook a useful point of reference. It has been updated to 1 February 2019, though we have taken account of later developments where practicable.

Remember that you can stay up to date with the latest pensions news and insight by visiting eversheds-sutherland.com/pensions and our Future of Pensions hub, and by signing up for our regular email Speedbriefs, UK and International Pensions Agendas, videos and events in your region.

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Areas of experience

- setting-up and amending schemes
- managing scheme change and risk reduction exercises
- 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)
- pensions aspects of corporate transactions
- 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 restructuring

Pensions Age Awards 2018: Winner, Pensions Law Firm of the Year

Pensions Insight DC Awards 2018: Winner, Best Workplace Pensions Initiative (for the Simpler Annual Statement)

UK Pensions Awards 2017: Winner, Pension Lawyers of the Year

European Pensions Awards 2016: Winner, European Pensions Law Firm of the Year

Pensions Age Awards 2016: Winner, Pensions Law Firm of the Year

Engaged Investor Trustee Awards 2016: Winner, Best Trustee Education Provider

Contents

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.

Pensions acronyms

AA	Annual allowance
ABI	Association of British Insurers
ACA	Association of Consulting Actuaries
ACD	Authorised corporate director
ACS	Authorised contractual scheme
AIF	Alternative investment fund
AIFM	Alternative investment fund manager
AIFMD	Alternative investment fund managers directive
APL	Association of Pension Lawyers
APPS	Appropriate personal pension scheme
ARP	Accrued rights premium
ASB	Accounting Standards Board
ASP	Alternatively secured pension
AUT	Authorised unit trust
AVC	Additional voluntary contribution
AWA	Approved withdrawal arrangement
BAS	Board for Actuarial Standards
BIS	Department for Business Innovation and Skills
CARE	Career average revalued earnings
CBI	Confederation of British Industry
CCP	Central clearing counterparty
CDC	Collective DC scheme
CEP	Contributions equivalent premium
CFTC	Commodity Futures Trading Commission
CJEU	Court of Justice of the European Union (also known as ECJ)
CEP	Contribitions equivalent premium
CETV	Cash equivalent transfer value
CIF	Common investment fund
CIS	Collective investment scheme
COMBS	Contracted-out mixed benefit scheme
COMPS	Contracted-out money purchase scheme
COSRS	Contracted-out salary related scheme
CPA	Compulsory purchase annuity
CPI	Consumer prices index
CPIH	Consumer prices index (housing)
DB	Defined benefit
DC	Defined contribution
DCLG	Department for Communities and Local Government
DPO	Deputy Pensions Ombudsman
DRA	Default retirement age
DWP	Department for Work and Pensions
ECJ	European Court of Justice (also known as CJEU)
ECON	Employer's contracting-out number
EFRBS	Employer-financed retirement benefits scheme (previously known as FURBS)
EIOPA	European Insurance and Occupational Pension Authority
ELTIF	European Long-Term Investment Fund
EMIR	European Markets and Infrastructure Regulation
EPB	Equivalent pension benefit
EPP	Executive pension plan
ERI	Employer-related investment
ESG	Environmental, social and governance
ESMA	European Securities and Markets Authority
ETV	Enhanced transfer value
EU	European Union

FA04	Finance Act 2004
FAS	Financial Assistance Scheme or Financial Accounting Standard
FCA	Financial Conduct Authority
FOA	Futures and Options Association
FRS	Financial Reporting Standard
FSAVC	Free standing additional voluntary contribution
FSD	Financial support direction
FSMA	Financial Services and Markets Act 2000
FURBS	Funded unapproved retirement benefits scheme (superseded by EFRBS)

GAD	Government Actuary's Department
GDPR	General Data Protection Regulation
GIPS	Global Investment Performance Standards
GLEIS	Global Legal Entity Identifier System
GMP	Guaranteed minimum pension
GMRA	Global Master Repurchase Agreement
GN	Guidance note issued by the BAS (now largely replaced by TASs)
GPP	Group personal pension

HMRC	Her Majesty's Revenue & Customs

IA	Investment Association (formerly Investment Management Association) or International Association
IAS	International Accounting Standard
ICTA	Income and Corporation Taxes Act 1988
ICVC	Investment company with variable capital
IDRP	Internal dispute resolution procedure
IFA	Independent financial adviser
IFRS	International Financial Reporting Standard
IGG	Investment Governance Group
IHT	Inheritance tax
IMA	Investment management agreement/Investment Management Association (now the Investment Association)
IORP	Institution for occupational retirement provision
IPA	Individual pensions account
IR	Inland Revenue (now HMRC)
IRSPSS	Inland Revenue Savings, Pensions and Share Schemes Office (formerly PSO and now HMRC)
ISA	Individual Savings Account
ISDA	International Swaps and Derivatives Association
ISLA	The International Securities Lending Association
ITEPA	Income Tax (Earnings and Pensions) Act 2003

LDI	Liability driven investment
LEI	Legal Entity Identifier
LEL	Lower earnings limit
LET	Lower earnings threshold
LGA	Local Government Association
LGPC	Local Government Pensions Committee
LGPS	Local Government Pension Scheme
LISA	Lifetime ISA
LPA	Limited partnership agreement
LPI	Limited price indexation
LTA	Lifetime allowance
LTAC	Lifetime allowance charge

MFR	Minimum funding requirement
MIG	Minimum income guarantee
MiFID	Markets in Financial Instruments Directive
MiFIR	Markets in Financial Instruments Regulation

MND	Member-nominated director
MNT	Member-nominated trustee
MVA	Market value adjustment
NAPF	National Association of Pension Funds (now called the PLSA)
NBV	Net book value
NEST	National Employment Savings Trust
NFC	Non-financial counterparty
NHSPS	National Health Service Pension Scheme
NICO	National Insurance Contributions Office, part of HMRC
NISPI	National Insurance Services to Pensions Industry
NMPA	Normal minimum pension age
NPA	Normal pension age
NPD	Normal pension date
NRA	Normal retirement age
NRD	Normal retirement date
NRE	Net relevant earnings
NURS	Non-UCITS retail scheme
OEIC	Open ended investment company
OMO	Open market option
OPAS	Occupational Pensions Advisory Service (now TPAS)
OPRA	Occupational Pensions Regulatory Authority (replaced on 6 April 2005 by the Pensions Regulator)
OPS	Occupational pension scheme
OTC	Over-the-counter
PA95	Pensions Act 1995
PA04	Pensions Act 2004
PCSPS	Principal Civil Service Pension Scheme
PFI	Private Finance Initiative

PFPV	Pension fund pooling vehicle
PHI	Permanent health insurance
PIE	Pension increase exchange
PIP	Pension input period/Pensions infrastructure platform
PIRC	Pensions Information Research Consultants
PLRC	Pensions Law Review Committee
PLSA	Pension and Lifetime Savings Association (formerly called the NAPF)
PMI	Pensions Management Institute
PN	Practice note
PO	Pensions Ombudsman
PPF	Pension Protection Fund
PPI	Pooled pension investment or Pensions Policy Institute
PPP/PPS	Personal pension plan/scheme or public private partnership
PRA	Prudential Regulation Authority
PRAG	Pensions Research Accountants Group
Pre-LEI	Pre-legal entity identifier
PRP	Protected rights premium
PSA93	Pension Schemes Act 1993
PSO	Pension Schemes Office (succeeded by HMRC Pension Schemes Services)
PUP	Paid-up pension
QIS	Qualified investor scheme
QNUPS	Qualifying non-UK pension scheme
QROPS	Qualifying recognised overseas pension scheme
RAC	Retirement annuity contract
Repo	Repurchase transaction
RPI	Retail prices index

RPI(J)	Retail prices index (Jevons)
RPI(H)	Retail prices index (Housing)
RPSM	Registered pension scheme manual (now replaced by the Pensions Tax Manual)
SCON	Scheme contracting-out number
SEC	Securities and Exchange Commission
SERPS	State earnings-related pension scheme (superseded by S2P)
SFO	Statutory funding objective
SFP	Statement of funding principles
SI	Statutory instrument
SIP	Statement of investment principles
SIPP	Self-invested personal pension
SLTA	Standard lifetime allowance
SMPI	Statutory money purchase illustration
SORP	Statement of recommended practice
SPA	State pension age
SPC	Society of Pension Consultants
SRI	Socially responsible investment
SSAP	Statement of standard accounting practice
SSAS	Small self administered scheme
STRGL	Statement of total recognised gains and losses
SUURBS	Secured unfunded unapproved retirement benefits scheme
S2P	State second pension
TACT	The Association of Corporate Trustees
TAS	Technical actuarial standard issued by the BAS
TEE	Taxed exempt exempt
TKU	Trustee knowledge and understanding

TMA	Transition management agreement
TPAS	The Pensions Advisory Service (formerly OPAS)
TPIE	Total pension increase exchange
TPR	The Pensions Regulator
TPS	Teachers' Pension Scheme
TUPE	Transfer of Undertakings (Protection of Employment) Regulations 2006
TV	Transfer value
UEL	Upper earnings limit
UCITS	Undertakings for Collective Investment in Transferable Securities
UKIPS	United Kingdom Investment Performance Standard
USS	Universities Superannuation Scheme
UURBS	Unfunded unapproved retirement benefits scheme
WGMP	Widower's/widow's guaranteed minimum pension

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** pension from a **public service pension scheme** is reduced when he is re-employed after drawing his pension because his new salary and pension should not (in aggregate) 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 typically 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**.

A

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 requirement** 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.

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 **NICO** to an **appropriate pension scheme, COMPS or COMBS** for **members** who were in **contracted-out employment**. They increase with the age of the **member**.

Following the abolition of **protected rights** on 6 April 2012, **age-related rebates** ceased, subject to transitional provisions.

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 **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 2019/20 **tax year.** Accruals above this amount are subject to the **annual allowance charge**.

The **annual allowance** relating to **money purchase** savings is reduced in certain circumstances where an individual takes funds from a **money purchase** pension scheme (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). This is known as the **money purchase annual allowance.** It was £10,000 from 6 April 2015, and was further reduced to £4,000 from 6 April 2017.

In addition, the **tapered annual allowance**, which came into force from 6 April 2016, is 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 **member’s 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).

See also **scheme pays.**

Annual report

A means by which **trustees** of **occupational pension schemes** communicate information about the scheme to **members**, employers and other interested parties. This includes, among other things, details of the audited **scheme accounts**, an investment report and details of the **trustees** and advisers.

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**.

Annuitant

An individual to whom an **annuity** is paid.

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**.

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**.

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**.

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.**

Approval

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** that 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 **Pension Protection Fund (PPF) assessment period** starts.

Assessment period

The period during which an eligible **occupational pension scheme** is assessed to ascertain whether the **Pension 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, AUT** and **ACS**.

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. These 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 to or 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.**

A

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).

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; qualifying pension scheme; 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 are 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 if no exemptions apply.

See also **auto-enrolment.**

Average earnings

See **career average.**

B

Bankruptcy

Where a **bankruptcy** order has been made on a **bankruptcy** petition that was presented on or after 29 May 2000, a **member's** undrawn pension benefits are protected from a trustee-in-bankruptcy (the Court of Appeal case of Horton v Henry confirms this).

See also **insolvency event**.

Barber judgment

A judgment of the European Court of Justice 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** paid to all those who reached their **state pension age** before 6 April 2016 and who met the minimum national insurance contribution requirements. It was not related to earnings, unlike the **state second pension**. The **basic state pension** and the **state second pension** have been replaced by the **single tier state pension** for those reaching **state pension age** on or after 6 April 2016.

See also **single-tier state pension**.

"Beckmann" rights

Broadly, all rights under an **occupational pension scheme** which do not relate to "old age, invalidity or survivors' benefits". A common example is the provision of enhanced **early retirement** pensions where **members** are made redundant after **normal minimum pension age** but before their **normal retirement date**.

These rights have come to be known as **"Beckmann" rights** after the case of Beckmann v Dynamco Whicheloe McFarlane in 2002, in which the European Court of Justice confirmed that any such rights are not excluded from the protections provided to transferring employees under **TUPE**. Because of this, the transferee employer may be obliged to continue to provide these kinds of rights to the transferring employees following the transfer of employment, even though there is no obligation to provide equivalent pension rights in other respects.

See also **TUPE**.

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 tax legislation, the term 'beneficiary' may have a different meaning.

Benchmarks Regulation

The EU **Benchmarks Regulation** applies from 1 January 2018. It largely replaces the existing UK regulation of certain specified benchmarks and applies to a much wider range of indices. The **Benchmarks Regulation** does not have a direct impact on pension schemes, however. It regulates indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds.

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**.

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

Benefit crystallisation event (cont.)

- 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 pension 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. In Scotland, the relevant requirements can be found in statutory guidance to local authorities on contracting issues under the Local Government in Scotland Act 2003.

Board for Actuarial Standards (BAS)

The **BAS** is responsible for issuing the **Technical Actuarial Standards**.

Bridging pension

A temporary pension paid by some schemes to **members** who retire before **state pension age**. This is designed to bridge 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.

B

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 outsourcings 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**.

C

Capped 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 each year. Under **capped drawdown**, the maximum amount of pension that an individual could withdraw each year was limited (broadly) to 150% 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 period of **pensionable service** (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.

See also **career average.**

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 that still exceeds the **annual allowance** after **carry forward.** Where the **money purchase annual allowance** applies, **carry forward** of unused **annual allowance** cannot be applied in relation to the **member's money purchase** savings.

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 that **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 it 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.

CETVs are calculated by **trustees**, after obtaining actuarial advice. 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.

Chair's statement

An annual governance statement, signed by the chair of **trustees**, which most **occupational pension schemes** providing **money purchase** benefits are required to prepare within seven months of the end of each scheme year. Areas to be covered include costs and charges, value for **members, trustee knowledge and understanding (TKU)** and governance of the **default arrangement**.

The Pensions Regulator has issued a "quick guide" to the **chair's statement.** The Government has said it plans to introduce a new triennial **chair's statement** for **defined benefit** schemes but details have not been confirmed.

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** used as **qualifying pension schemes** for **auto-enrolment** have been subject to a **charge cap** of 0.75% 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.**

Since 1 April 2017, a separate **charge cap** of 1% has applied to early exit charges on existing **personal pension plans**, with a 0% cap for new contracts. Similarly, from 1 October 2017, a **charge cap** of 1% has applied to early exit charges for existing members of **occupational pension schemes**, with such charges being banned for **members** who join the scheme after that date.

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. The Government plans to extend **civil partnership** to opposite sex couples.

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**.

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.

The **Pensions Regulator** plans to update its guidance on **clearance** (issued in 2010) during 2019 or 2020.

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**.

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

Code of practice continued

- 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**
- authorisation and supervision of **master trusts**

Codes of practice are not statements of the law and there is no direct penalty for failure to comply with them. It is not necessary for all the provisions of a **code of practice** to be followed in every circumstance. Any alternative approach to that set out in the code will, nevertheless, have to meet the underlying legal requirements. When determining whether the legal requirements have been met, a court or tribunal should take any relevant provisions of a **code of practice** into account.

The **Pensions Regulator** also issues guidance materials – see **guidance from the Pensions Regulator**.

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%. 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. The Government plans to legislate to facilitate **CDC** in the UK and the DWP responded to a consultation on this topic in March 2019.

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 scheme rules and to tax on amounts exceeding the 25% tax-free allowance).

See also **small lump sum commutation**; **serious ill-health lump sum**; **uncrystallised 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 **IAS19** are generally used for accounting periods after 1 January 2015.

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 each affected **member** and opportunity given for them to make representations
- they have satisfied themselves that the actuarial value of each **member's** 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**.

Consumer prices index (CPI)

An indicator of price inflation used by the Government from April 2011 in place of the **retail prices index** for determining minimum **pension increases** and **revaluation** of **preserved benefits**. This applies to **public service pension schemes** and (subject to the scheme's own rules) private sector **occupational pension schemes**, as well as **Pension Protection Fund** and **Financial Assistance Scheme** compensation. Historically, the **consumer prices index** has, in general, been lower than the **retail prices index**.

An **occupational pension scheme's** own rules will have a bearing on whether the **retail prices index** or the **consumer prices index** (or a combination of the two) is used as the basis for **pension increases** and **revaluation** under that scheme.

Consumer prices index (housing) (CPIH)

An indicator of price inflation which has been published by the Office for National Statistics since March 2013. It is based on the **consumer prices index** but includes owner occupier housing costs. **CPIH** was designated as a national statistic in 2017 but, as yet, there has been no indication that the Government will adopt **CPIH** for the purpose of **indexation/revaluation** of pension benefits.

Contingent assets

Assets that become available to an **occupational pension scheme** only on the occurrence of specified future events (eg an 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 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**.

Continuity strategy

A document setting out how an authorised **master trust** proposes to protect the interests of scheme **members** if a **triggering event** occurs in relation to the scheme. A particular concern is that the costs of resolving the **triggering event** should not be passed to **members** in the form of increased administration charges and, for this reason, the **continuity strategy** must set out levels of administration charges. The **continuity strategy** must be prepared by the **scheme strategist**, approved by the **trustees** and any **scheme funder** and submitted to the **Pensions Regulator**.

See also **master trust; scheme funder; scheme strategist; triggering event**.

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 **swaps**.

Contracted-out

Where a pension scheme was **contracted-out** before 6 April 2016, it provided certain benefits (or, if the scheme was contracted-out on a **money purchase** basis 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.

See also **age-related rebate**; **contracted-out money purchase (COMP)**; **contracted-out salary related (COSR)**; **contracted-out mixed benefit (COMB)**; **contracted-out rebate**; **GMP; protected rights; single-tier state pension**.

Contracted-in

A pension scheme was commonly referred to as '**contracted-in**' where it was not **contracted-out**.

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 scheme that was contracted-out on a **money purchase** basis before 6 April 2012 by holding an account with particular minimum contributions for the benefit of the **member.** 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/contacted-in.**

Contracted-out salary related (COSR)

An **occupational pension scheme** that was **contracted-out** on a **salary related** basis by providing benefits that, between 6 April 1997 and 6 April 2016, were broadly equivalent to or better than those specified under the **reference scheme test**. A **COSR** scheme was **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** satisfied **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. Depending on the approach, this may meet the employer's **auto-enrolment** obligations.

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**.

The DWP confirmed in its February 2019 consultation response that it plans to make changes to the rules around **contribution notices**.

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 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. Alternatively a **trustee** board may include a **corporate trustee** in addition to individual **trustees**.

See also **trust corporation**.

Cost-sharing mechanism

The mechanisms previously adopted by **public service pension schemes**, designed to ensure that the scheme costs were sustainable for employers, **members** and taxpayers.

See also **employer cost cap**.

Cross-border scheme

A scheme that, broadly, operates in more than one European Economic Area state. A **cross-border scheme** must meet certain conditions (including funding requirements) and apply for authorisation from the **Pensions Regulator**.

Most UK pension schemes have historically taken steps to ensure that they do not become **cross-border schemes**.

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. **Data protection** rules were strengthened from 25 May 2018 by the European General Data Protection Regulation (GDPR).

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% 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%. 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)**

Defined benefit lump sum death benefit

An **authorised lump sum** paid on the death of a **member** of a **defined benefit** scheme. It is usually a multiple of the **member's** salary.

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.

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 benefit illustration, **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 is the key piece of legislation setting out 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** (ie 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 Ombudsman's** Early Resolution Service (previously part of **The Pensions Advisory Service**)
- the **Pensions Ombudsman's** formal complaints process
- 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.

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 **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 permitted by HMRC except in cases of ill-health or where the **member** has a **protected pension age**.

See also **ill-health early retirement; normal minimum pension age; protected pension age.**

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 2019/20, and subject to annual review) from the employer in a relevant **pay reference period**

This is subject to certain exceptions, for example workers in a notice period or those who have claimed tax protection against increases in the **lifetime allowance.**

An **eligible jobholder** who has been enrolled automatically 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 cost cap

Public service pension schemes providing **defined benefits** are required to set a rate, expressed as a percentage of **pensionable earnings** of scheme **members**, to be used to measure changes in the cost of the scheme. This rate is known as the **employer cost cap**. Schemes are obliged to take steps to ensure that the overall cost of the scheme remains within specified margins either side of the **employer cost cap**, including (if necessary) by altering benefits or **member contributions**.

See also **cost-sharing mechanism**.

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.**

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 **relevant benefit accrual** occurs).

See also **fixed protection; fixed protection 2014; fixed protection 2016; individual protection 2014; individual protection 2016; 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); total pension increase exchange (TPIE).**

Entitled worker

A worker whose earnings are equal to or less than the equivalent of £6,136 per year in a relevant **pay reference period** (in the 2019/20 **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 the worker is not entitled under **auto-enrolment** legislation 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.

Following many years of uncertainty, the High Court confirmed in the October 2018 Lloyds Banking Group judgment that pension schemes must equalise for the discriminatory effect of **GMPs**.

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)

An **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.**

Excepted life assurance scheme

An unregistered life assurance scheme, set up under a discretionary trust, which provides only lump sum benefits to a defined category of **beneficiaries**. The benefits are secured by a policy (usually an excepted group life policy) which meets certain conditions. As it is an unregistered scheme, membership does not breach conditions relating to HMRC **lifetime allowance** protections (such as **fixed protection** or **enhanced protection**). **Excepted life assurance schemes** are commonly used for high earners.

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.**

Executive pension plan (EPP)

A scheme sold by insurance companies that is used to provide benefits for directors and other senior employees. Each insurance policy is earmarked to provide benefits for a single **member**.

E

Executive scheme

An arrangement for the provision of benefits to directors and/or senior employees. These may be **registered pension schemes** or **employer-financed retirement benefits schemes**.

Exempt Exempt Taxed (EET)

This is a shorthand description for a system of pensions taxation under which (broadly) no tax is charged when **contributions**/assets are first placed into a pension arrangement or on the investment growth on the pension assets, but withdrawals to provide retirement benefits are taxable.

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

Exempt unit trust

A **unit trust** that is specifically designed for pension schemes and charities and enjoys the same tax advantages as the assets of a directly invested pension scheme.

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**, so that it falls outside the **member's** estate for inheritance tax purposes. Where the death benefit is payable under a discretionary **trust**, the **trustees** are not bound to follow the **member's expression of wish** form.

F

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.

Final pensionable earnings

The **member's** earnings used to calculate his pension in a scheme providing **final salary benefits**. This term will be defined in the rules of the scheme. Also commonly referred to in pension scheme rules as **final pensionable salary**.

Final pensionable salary

See **final pensionable earnings**.

Final remuneration

Refers to the mandatory limit that applied to all tax **approved schemes** before 6 April 2006 on the amount of earnings that could be used to calculate benefits and contributions in respect of certain **members**. Since 6 April 2006, benefits and contributions have no longer been required to be limited by reference to **final remuneration**. However, some schemes continue to apply such a limit.

See also **earnings cap**; **Inland Revenue limits**; **remuneration**.

Final salary benefits

Benefits calculated by reference to a **member's final pensionable salary** and without reference to the contributions paid or the investment performance of the fund.

Final salary scheme

The most common type of **defined benefit** scheme, in which benefits are based on a fraction (such as 1/60th or 1/80th) of the **member's final pensionable salary** for each year of **pensionable service**.

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 temporary exemption 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% 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.

The Government confirmed in February 2019 that it will make changes to the rules around **financial support directions**.

See also **anti-avoidance**; **contribution notice**.

Fixed protection

A form of tax protection provided 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. Those benefiting from **primary protection, enhanced protection** or **fixed protection** may not also benefit from **fixed protection 2014**.

See also **individual protection 2014.**

Fixed protection 2016

A form of tax protection available when the **lifetime allowance** was 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 a **member's** funds under a registered **money purchase** arrangement may be transferred into a **drawdown** product and designated as being available for **flexi-access drawdown**. The **member** will then 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).

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

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** which 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**; **scheme 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 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**; **safeguarded-flexible benefits.**

Flexible drawdown

Before 6 April 2015, the ability for an individual to take some or all of their pension fund under a **money purchase** 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 drawdown**.

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 of 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 inflation-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 restrict 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**.

F

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**
- FRS102/**IAS19** (International Accounting Standard 19) 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".

G

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 legal requirement for **occupational pension schemes** that pay **guaranteed minimum pensions** (**GMPs**) to adjust the total benefits payable in respect of **pensionable service** from 17 May 1990 to 5 April 1997 in order to eliminate inequalities arising from differences in the **GMPs** payable to men and women under the scheme.

The DWP issued a consultation paper on **GMP equalisation** in November 2016. This includes a proposed methodology for equalising and converting GMPs into ordinary scheme benefits. The response to this consultation (issued in March 2017) confirmed that the DWP will be undertaking further discussions with the industry working group before finalising its proposals. Those discussions and final proposals will now also need to take into account the judgment of the High Court in the case of Lloyds Banking Group, which was delivered in October 2018.

See also **equalisation**.

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** (eg 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-flexible 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 **equalisation**; **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**

Guidance is also available in respect of **public service pension schemes**.

See also **codes of practice.**

"Eversheds Sutherland...always show an excellent eye for detail, are quick to identify issues and give strong commercial advice whilst being responsive and a pleasure to work with."

Peter Flanagan
Vice President, Pensions (UK & Ireland), DHL

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**

Changes have been proposed to **IFRIC 14** which could potentially make it more difficult for a surplus to be 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; and
- 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 and may sometimes be enhanced further by the crediting of **added years.**

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 **capped drawdown**; **drawdown pension**; **flexi-access drawdown**; **flexible 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 permit this).

Independent governance committee (IGC)

Providers of workplace **personal pension** schemes are required to have in place an **IGC** to assess the **value for money** of their 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 had until 5 April 2017 to apply to HMRC for **individual protection 2014**. It is possible for an individual to have **individual protection 2014** alongside other forms of **lifetime allowance** protection (other than **primary protection**), including **fixed protection 2014**.

See also **fixed protection 2014**.

Individual protection 2016

A form of tax protection available when the **lifetime allowance** was 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. 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).

Initial margin

One part of the margin requirements under the **European Markets and Infrastructure Regulation (EMIR)**, which are designed to mitigate the risks associated with entering into **OTC derivatives** contracts that are not cleared by a **central clearing counterparty**. **Initial margin** is **collateral** collected by a party to reflect the potential future exposure of a party due to its counterparty's default. To reflect movements in counterparties' risk positions, initial margin will need to be recalculated following a change to the portfolio of non-cleared **OTC derivatives** transactions between the counterparties and otherwise every 10th business day.

The other margin requirement under **EMIR** is **variation margin.**

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

A 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 (though the **Pensions Ombudsman** has expressed a preference for one-stage procedures). Usually, **members** can complain to the **Pensions Ombudsman** only after they have 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.

See also **IFRIC 14**.

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 industry 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)

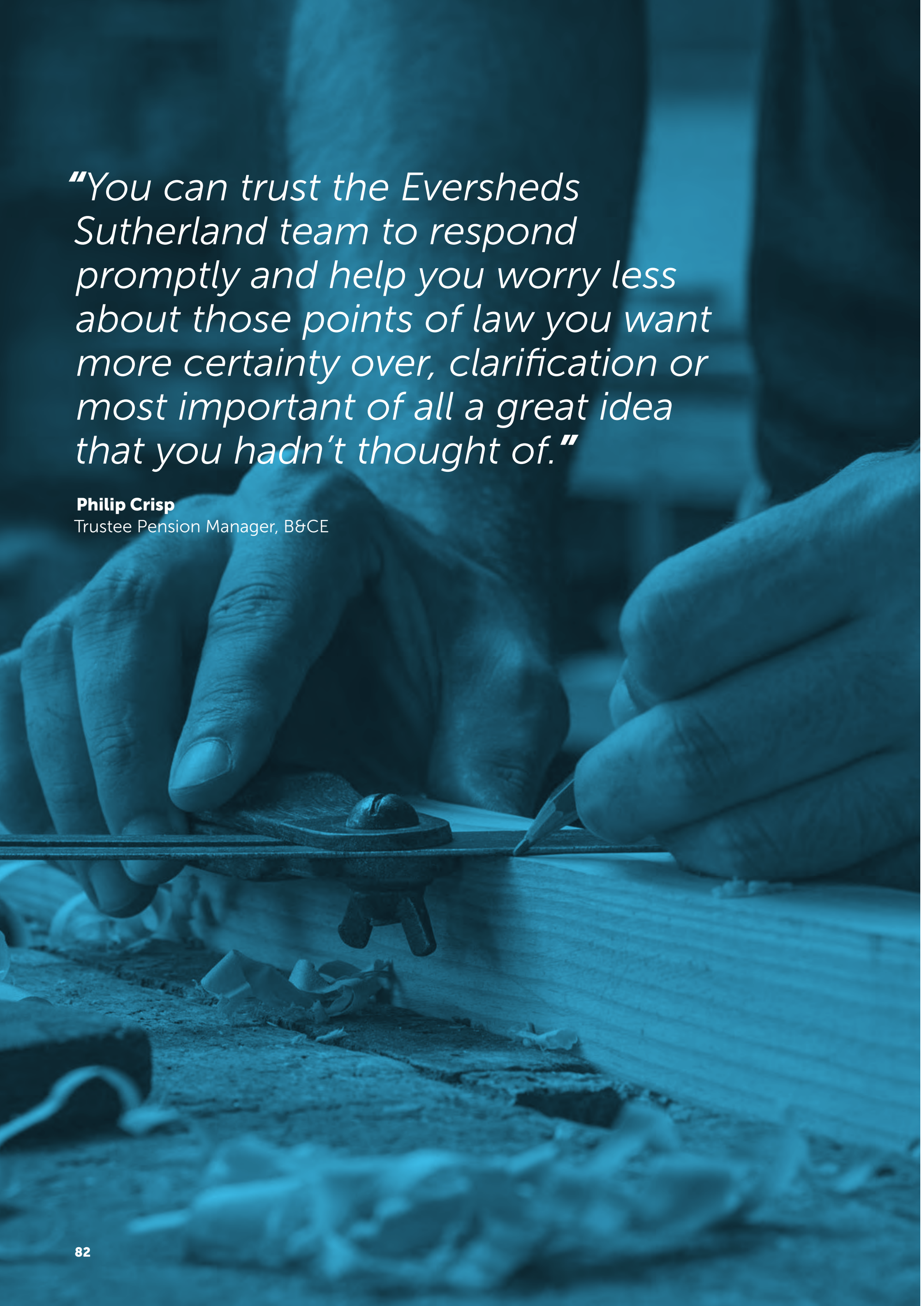
An agreement between an **investment manager** and the **trustees** of a scheme that sets out the terms on which the manager will manage the portfolio of investments for the **trustees**.

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**. EU Directive 2003/41 was replaced by EU Directive 2016/2341, often referred to as the "IORP II" Directive, from 13 January 2019.



“You can trust the Eversheds Sutherland team to respond promptly and help you worry less about those points of law you want more certainty over, clarification or most important of all a great idea that you hadn’t thought of.”

Philip Crisp
Trustee Pension Manager, B&CE

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 £10,000 per annum (in 2019/20) 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**.

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**, currently 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%.

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 the value of an individual's total benefits from all the **registered pension schemes** in which they have **accrued rights** exceeds the **lifetime allowance**, a tax charge (known as the **lifetime allowance charge**) will be payable on the excess. The **standard lifetime allowance** for the 2019/20 **tax year** is £1.055m. 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% where the excess is taken as pension, and 55% where the excess is taken as a lump sum. Income tax at the **member's marginal tax 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%.

Lifetime annuity

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

See also **annuity**; **open market option**.

Lifetime ISA (LISA)

The **Lifetime ISA (LISA)** is a form of tax-privileged saving first introduced in the 2017/18 **tax year**. As with other ISAs, savings are made from taxed income, but investment returns and withdrawals are generally free of tax. In addition, savers qualify for a tax "bonus" equal to 25% of the contributions made to the **LISA** (up to the annual contribution limit of £4,000). The account may only be opened by those aged under 40, and the tax bonus ceases at age 50.

Except in limited circumstances (such as terminal illness), savings placed in a **LISA** may only be withdrawn without penalty in order to fund the purchase of a first home in the UK, or upon reaching age 60. Withdrawals which do not meet these criteria will be subject to a tax charge of 25% (effectively, a clawing-back of the tax "bonus" plus a further charge of 5%). Because of the age limit on withdrawals, the **LISA** has been promoted as a supplementary form of retirement saving.

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 statutory 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 in relation to increases to pensions in payment only applies in respect of service after 5 April 1997, and it is only a minimum requirement. 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.

Local Government Pension Scheme (LGPS) continued

Although managed by around 90 separate **administering authorities**, LGPS funds are increasingly being invested as **pooled funds** to achieve economies of scale.

See also **administering authority; 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** or **beneficiary**. In some cases, a 55% tax charge will apply to payments of **lump sum death benefits** in excess of the **lifetime allowance**. Depending on the precise circumstances, the lump sum may also be subject to a special tax charge of 45%. 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

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

A trust-based **occupational pension scheme** which has been established to provide benefits to workers of employers that are not connected. Each employer usually has a separate section. Under a new regulatory regime introduced under the Pension Schemes Act 2017, **master trusts** which provide **money purchase** benefits must be authorised by the **Pensions Regulator** before accepting money from **employers** or **members**, and must satisfy prescribed criteria relating to the financial sustainability of the scheme.

See also **continuity strategy**; **scheme funder**; **scheme strategist**; **triggering event**.

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**. Following the DWP's February 2019 consultation response, the Government has confirmed that it plans to update the **material detriment test**.

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 **registered pension 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 contribution** scheme including employer **contributions** (or under 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**.

MiFID

MiFID is the regulation which governs the way in which **investment managers** and other regulated service providers do business with pension schemes. **MiFID** has been in place since 2007 and was replaced by **MiFID II** on 3 January 2018.

MiFID II

MiFID II replaced **MiFID** on 3 January 2018. Whilst **MiFID II** has no direct impact on pension schemes, it does affect the way in which managers interact with pension schemes. In particular in respect of local authority pension schemes, **MiFID II** affects the scope of services which managers are able to provide to such pension schemes.

MiFIR

MiFIR is the regulation which mainly addresses reporting obligations. **MiFIR** governs the transparency requirements for trading venues, OTC trades, transaction reporting and further derivatives trading requirements. **MiFIR** has been effective since 3 January 2018.

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 have been less than its actuarial **liabilities** (where both were calculated using a prescribed **actuarial** method and prescribed **assumptions**).

Modification of subsisting rights

See **detrimental modification**; **protected modification**; **section 67**.

Money and Pensions Service

See **Single Financial Guidance Body.**

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 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 **cash balance**; **defined contribution**.

Money purchase annual allowance

See **annual allowance.**

Moral hazard

See **anti-avoidance.**

Mortality risk

See **longevity risk**.

Mortality swap

See **longevity swap**.

M

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.

N

NHS Pension Scheme (NHSPS)

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 **NHSPS** 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 £6,136 per year but less than or equal to £10,000 per year in a relevant **pay reference period** (in the 2019/20 **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 2019/20 **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 into 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 r**egistered pension scheme** can normally start to receive their benefits. The **normal minimum pension age** is currently 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, 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.

The Government plans to amend and update the **notifiable events** regime during 2019/20.

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**.

O

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 to 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

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**.

O

Option

A right under a **derivatives** contract to acquire or dispose of an asset.

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 or other governing documentation) and is under certain statutory obligations in respect of the scheme.

See also **deed of participation**; **section 75 debt**.

Part-time workers

A worker other than one who is identifiable as a full-time worker (taking account of the employer's custom and practice). **Part-time workers** 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 future 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 provided to pensioners to ensure that they receive a guaranteed minimum level of income
- 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 pay benefits at or above the level of **PFF compensation**. Schemes that began **winding-up** before 6 April 2005 are not eligible to enter the **Pension Protection Fund** but may have been 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** (other than single member schemes), 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**, annulment 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.

The Government is **merging Pension Wise** with **TPAS** and the Money Advice Service to create the **Money and Pensions Service** in 2019.

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 (eg):

- 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 advice allowance

A specific type of **authorised member payment** under which a **registered pension scheme** may (on request from the **member**) deduct an amount from the **member's** benefit entitlement and pay it directly to the **member's** regulated independent financial adviser to cover all or part of the cost of providing or implementing "retirement financial advice" for the **member**. In this context "retirement financial advice" means advice in respect of the **member's** financial position, including their pension arrangements and the use of their pension funds. No more than £500 may be paid in any one **tax year** and no more than three payments may be made in total. **Pensions advice allowance** payments cannot be made from **defined benefit** arrangements.

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** may also investigate such complaints arising as between trustees (whether of the same or different scheme) or managers or administrators of a 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, it 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**; **guidance from the Pensions Regulator**.

Permitted investments

Types of investments that **trustees** are allowed to make under their scheme's rules and in accordance with legislation. This term was also previously used to refer to the investments which were formerly stipulated by HMRC in connection with **self-invested personal pensions**.

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**.

Personalised risk warnings

The risk warnings that must be provided to a **member** who requests a transfer or conversion of any **safeguarded-flexible benefits** or an **uncrystallised funds pension lump sum** in relation to such benefits. The risk warnings must include both an illustration of the annual income that would be provided to the member on the basis of any **guaranteed annuity rate** and an illustration of the annual income the same sized pension pot would provide if used to purchase an **annuity** of the same type using the most recent rate for the open market.

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 expenses 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 **NPA** 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 but must not be less than 50% of benefits, under EU law.

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)**.

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 own 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

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 an **occupational pension scheme**. The order may relate to a particular scheme or category of schemes, or to all schemes. 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 both 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** 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). A new funding **code of practice** describing **prudence** may be issued in 2019.

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 £6,136 per annum and not more than £50,000 per annum (2019/20 figures, reviewed annually). For example, an employee with earnings of £10,000 per annum will have **qualifying earnings** of £3,864 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 at least 2% of **qualifying earnings** (rising to 3% 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 non-UK pension scheme (QNUPS)

A pension scheme which is not a **registered pension scheme**, which is established in a country outside the UK, and which meets certain statutory requirements (similar to, but somewhat less stringent than, those applying to a **QROPS**). Unlike a **QROPS**, a **QNUPS** cannot be used to receive a **transfer payment** from a **registered pension scheme**, and therefore is most commonly used as a top-up pension arrangement. From a tax perspective, savings in a **QNUPS** are not subject to the **annual allowance** or **lifetime allowance**, and any unused funds will usually not be subject to inheritance tax on the **member's** death.

See also **qualifying recognised overseas pension scheme**.

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 any **tax year** which exceed the greater of the **member's** taxable earnings for that **tax year** and £3,600.

Refund of member contributions

Since 1 October 2015, such refunds may only be given automatically 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**
- **uncrystallised 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**
- **uncrystallised funds lump sum death benefit**

except (in either case) where the lump sum is payable in respect of a **member** who died before reaching age 75, but is not paid out within a period of two years from the date when the **scheme administrator** first knew (or should have known) of the **member's** death.

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**

Not to be confused with **notifiable events**.

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 at had the transaction not been entered into.

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

R

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)**. **RPI** has not been recognised as a national statistic since March 2013 but is still published by the Office for National Statistics.

See also **consumer prices index (CPI)**.

Retail prices index (Jevons) (RPIJ)

An indicator of price inflation which was published by the Office for National Statistics between April 2013 and March 2017. It used 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** (subject to a cap of either 5% or 2.5%). 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.

R

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 **the state second pension**.

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 previously allowed 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) added 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.

S

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 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.

See also **safeguarded-flexible benefits.**

Safeguarded-flexible benefits

Pension benefits which are essentially **defined contribution** in nature, but which offer some form of guarantee in relation to the pension income that will be available to the **member**. They therefore share some of the characteristics of both **safeguarded benefits** and **flexible benefits**. A typical example is a **money purchase** pension arrangement the rules of which provide for a **guaranteed annuity rate**.

Safeguarded-flexible benefits are subject to the same requirements as **safeguarded benefits** regarding the need for the **member** to take independent financial advice prior to transferring or converting the benefits into **flexible benefits**. In addition, from 6 April 2018, the transferring scheme must give the **member** tailored risk warnings illustrating in monetary terms the value of the guarantee which would be lost as a result of transfer or conversion, including in cases where the benefits are below the £30,000 threshold and therefore financial advice is not required.

See also **flexible benefits; safeguarded benefits; guaranteed annuity rates.**

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** or **safeguarded-flexible benefits.**

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, promises of better returns on savings and upfront cash.

The Government has published a range of materials to alert pension scheme **members** to the risks of pension **scams**.

See also **liberation.**

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.

With effect from the 2017/18 **tax year**, only limited types of **salary sacrifice** arrangements have attracted this beneficial tax/national insurance treatment, though **salary sacrifice** for pension **contributions** remains possible.

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. This 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**. It 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**
- 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 funder

In relation to an authorised **master trust**, a **scheme funder** is any person who is either liable to cover the scheme's running costs where administration charges received from or in respect of **members** are insufficient, or who is entitled to receive any profit where such administration charges are lower than the running costs. Under the authorisation regime introduced by the Pension Schemes Act 2017, a **scheme funder** of an authorised **master trust** must meet various requirements, including that they are a "fit and proper person", and must approve matters such as the scheme's business plan and continuity strategy. Insolvency of a **scheme funder** is a **triggering event**.

See also **continuity strategy; master trust; scheme strategist; triggering event.**

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 standard **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% of all **scheme chargeable payments** made in any **tax year**.

Scheme specific funding

See **statutory funding objective**.

Scheme strategist

In relation to an authorised **master trust**, a **scheme strategist** is any person who is responsible for making business decisions relating to the commercial activities of the scheme. Under the authorisation regime introduced by the Pension Schemes Act 2017, a **scheme strategist** of an authorised **master trust** must be a "fit and proper person", and is responsible specifically for preparing the scheme's business plan and **continuity strategy**.

See also **continuity strategy; master trust; scheme funder; triggering event**.

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

A 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 37 certificate

An **actuarial certificate** confirming that amendments made prior to 6 April 2016 to a scheme that was **contracted-out** on a **reference scheme test** basis did not affect the scheme's ability to continue to satisfy the **reference scheme test** in relation to the future accrual of benefits.

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.**

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 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)

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).**

Securitisation Regulation

The **Securitisation Regulation** establishes a general framework for securitisation and creates a specific framework for simple, transparent and standardised securitisation. The **Securitisation Regulation** is a cornerstone of the EU's efforts to establish a capital markets union, by creating a single market for investment services and activities and to ensure a high degree of harmonised protection for investors in financial instruments. The **Securitisation Regulation** aims to diversify the source of funding available, promote investment and reinforce the EU's financial system. The **Securitisation Regulation** came into force on 1 January 2019.

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**.

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 5% 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 can only be paid in respect of **uncrystallised rights**, and must extinguish the **member's** entitlement to benefits under the arrangement.

S

Severe ill-health condition

A **member** who satisfies the **severe ill-health condition** and becomes entitled to all of his benefits from an arrangement will not have his benefits tested against the **annual allowance**. A **member** satisfies the **severe ill-health condition** where the **member** is suffering from ill-health which makes him 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. Equivalent provisions apply for adoption. **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 leaves **pensionable service** before qualifying for **short service benefit** and opts to 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

A type of fixed term **annuity** purchased using a **member's drawdown** fund. Under the Finance Act 2004, a **short-term annuity** must not exceed five years.

Single Financial Guidance Body (SFGB)

The **Single Financial Guidance Body** will replace the three existing providers of government-sponsored financial guidance, the Money Advice Service (MAS), **The Pensions Advisory Service (TPAS)** and **Pension Wise**, bringing together the provision of debt advice, money guidance and pension guidance. It became a legal entity in October 2018 and started to take on its delivery functions from January 2019. It is due to be re-named the **Money and Pensions Service** from 6 April 2019.

Single-tier state pension

The pension which replaced 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 2019/20 is £168.60 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**.

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)

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**.

Socially responsible investment (SRI)

Since July 2000, all **occupational pension schemes** have had to state in their **statement of investment principles** how, if at all, they have considered social, environmental and ethical matters in their investment strategies. From 1 October 2019 this requirement will change and **trustees** will need to state their policy in relation to taking financially material considerations (including environmental, social and governance considerations) into account.

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** was determined by the number of people in its largest PAYE payroll scheme. Details are available on the DWP and **Pensions Regulator** websites.

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 2019/20 **tax year** is £1.055m.

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** was 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 and women is 65. The **state pension age** for women was previously 60 but rose 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 six 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 was completed in 2017 and, as a result, the Government announced its intention to accelerate the increase of 68 to 2039 but will carry out a further review before doing so.

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 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 **underfunding**.

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

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 **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. An **active 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.

S

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% or more of the fund value, or
- **unauthorised payments** are made to any particular **member** or employer which in aggregate equal 25% 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.**

Swap

A bilateral contract 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.**

T

Tapered annual allowance

The name given to the reduction in the **annual allowance** for higher earners which came 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 have 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)

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.** There is a pensions **TAS**, which looks at the principles around scheme funding, and 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 in relation to his **occupational** or **personal pension** arrangement. **TPAS** also delivers guidance on retirement choices by telephone, as part of the Pension Wise service.

In 2019 **TPAS** is merging with Pension Wise and the Money Advice Service to create the **Single Financial Guidance Body,** due to be renamed the **Money and Pensions 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. 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)

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**.

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.**

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 (usually in connection with an outsourcing of services or functions) 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**.

Transition manager

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.

Triggering event

One of a specified list of events in relation to an authorised **master trust** which may ultimately lead to the **winding-up** of the **master trust**. **Triggering events** include (for example) withdrawal by the **Pensions Regulator** of the scheme's authorisation, insolvency of a **scheme funder**, a decision by a **scheme funder** to cease its involvement with the scheme, or the triggering of **winding-up** under the scheme's rules. Upon the occurrence of a **triggering event**, the **trustees** normally have two choices: either to resolve the triggering event in some manner which is satisfactory to the **Pensions Regulator**, or to transfer the **members'** benefits to another authorised **master trust** and then **wind up** the scheme.

See also **continuity strategy; master trust; scheme funder; triggering event.**

Trivial commutation lump sum

An **authorised lump sum** that may be paid to a **member** of a **defined benefit registered pension scheme** or to a **member** who is receiving a **scheme pension** from a **defined contribution** pension arrangement, where the total pension rights from all of the **member's registered pension schemes** are deemed trivial, that is £30,000 or less (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 vulnerable. **Trustees'** exposure to personal 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** of **public service pension schemes.**

T

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 one of the following:

- a **defined benefit** scheme which provides benefits worth at least 6% of **pensionable earnings** for each year of employment plus the total amount of **member contributions**, and which does not require **member contributions** greater than 6% of **pensionable earnings**
- a **defined benefit** scheme to which the employer must make matching contributions of up to a maximum of 6% of basic salary
- 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 6% 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.

See also "**Beckmann" rights**.

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.

Note that a revised version of the **two-tier code** still applies in Wales and similarly, in Scotland, the equivalent guidance issued under the Local Government in Scotland Act 2003 has not been withdrawn.

U

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

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%, and in some circumstances an additional tax surcharge.

See also **unauthorised payments charge; unauthorised payments surcharge**; **scheme sanction charge**.

Unauthorised payments charge

A tax charge that arises when an **unauthorised payment** is made by a **registered pension scheme**. The charge is 40% 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% of the **surchargeable unauthorised payment** and is payable by the recipient of the payment. This means that a total tax payment of 55% 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 age 55 or above 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.**

Uncrystallised rights

Rights under a **registered pension scheme** which have not been subject to a **benefit crystallisation event**.

See also **benefit crystallisation event; serious ill-health lump sum.**

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.

U

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).

V

Value for money

Independent governance committees (IGCs) 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**.

Variation margin

One part of the margin requirements under **EMIR**, which are designed to mitigate the risks associated with entering into **OTC derivatives** transactions that are not cleared by a **central clearing counterparty**. **Variation margin** is **collateral** collected by a party to reflect the size of the current exposure of the **OTC derivatives** transaction (dependent on the current mark-to-market value of outstanding **derivatives** transactions). A party must collect **variation margin** on a daily basis.

The other margin requirement under **EMIR** is **initial margin.**

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; regulated apportionment 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.

Global definitions

The following section contains a selection of pensions definitions from Austria, Belgium, China, France, Germany, Hong Kong, Ireland, Italy, Luxembourg, Netherlands, Norway, Poland, South Africa, Spain, Switzerland and USA.

Please note that terms defined in this section may be defined differently in the UK section of this handbook.

Austria

The Austrian pension system is a three pillar system: state pension, company pension and private provision. The state pension is a contributory pension into which employers and employees contribute through their social security contributions over the working life of an individual. A company pension, on the other hand, is a fringe benefit which companies may offer to their employees. Lastly there are many different private old age provision products offered by insurance companies and banks, which anybody can choose to make use of.

Application to pension (Pensionsantrag)

In order to receive a pension, an individual has to apply for it. This, in combination with other pension models allows to a certain extent for a self determined retirement - provided that the requirements for receiving a pension (such as sufficient contribution months etc) have been met.

Company pension (Betriebspension)

A company pension is a fringe benefit, which companies may offer to their employees. The company pension may range from a single payment on retirement to a private pension fund. An employee will still be entitled to a company pension, even if employment is terminated before he retires.

Pension insurance institution (Pensionsversicherungsträger)

There are five pension insurance institutions entrusted to execute the relevant pension provision in Austria. The competent authority is determined on the basis of the individual's last employment or self employed activity.

Retirement age (Pensionsantrittsalter)

Retirement age is different for men and women. For men it is 65, for women it is 60. As of 2024 the retirement age for women will be raised gradually so that it levels with men's.

Corridor pension (Korridorpension)

From age 62, an application for a corridor pension can be filed, if the applicant can prove a certain amount of contribution months. This is to allow individuals who already have enough contribution months to retire earlier. Until the retirement age is levelled for women, this will only be available for men.

Pension settlement for the long term insured (Langzeitversichertenregelung or Hacklerregelung)

Unlike the corridor pension and the manual workers' pension, the pension settlement for the long term insured applies both to men and women. This scheme allows individuals to retire earlier, if they already have a certain number of contribution months. The age for entitlement to such pension varies depending on gender and year of birth.

Manual workers' pension (Schwerarbeiterpension)

Individuals who can prove that they have worked in physically or mentally strenuous jobs and fields of occupation are entitled to apply for a manual workers' pension from the age of 60 instead of 65. Until the retirement age is levelled for women, this is only available for men.

Additional income during pension (Zuverdienst während der Pension)

Individuals who have retired due to old age can earn more money (without limit) while they receive a pension. This does not affect the amount of the pension.

Additional income during "early aged pensions" like corridor pension or pension settlement for the long-term-insured (Hacklerregelung) above the amount of EUR 446.81 gross per month (for 2019) lead to the loss of these pensions.

Insurance case (Versicherungsfall)

A pension is not seen as a social benefit but rather as an event covered by insurance. This allows for a semi identical system in which the insurance events of invalidity, disability, death or old age can be processed in a similar way.

Equalisation supplement (Ausgleichszulage)

The equalisation supplement guarantees that retirees receive at least a minimum pension. If an individual's pension entitlement is less than the minimum pension, the pension will be topped up.

Partial retirement (Altersteilzeit)

This allows "older" employees to reduce their working time gradually by 40% to 60%. The Public Employment Service Austria (AMS) contributes to the salary.

Pension groups (Pensionsgruppen)

Generally, pensions are divided into two groups: individual pensions and survivor pensions. The first comprises retirement pensions, long time retirement pensions, corridor pensions, manual workers' pensions, invalidity or disability pensions. The second is aimed at widows and widowers, surviving dependants of a registered partner and orphans.

Personal retirement account (Pensionskonto)

The personal retirement account allows individuals to see their pension entitlement online. It gives information on the collected contribution months as well as the amount they would receive by way of pension if no more contribution months are collected.

Survivor's pension (Hinterbliebenenrente)

In cases of death due to an accident at work or an occupational illness, children, spouse or in some cases even parents and siblings can be entitled to a survivor's pension if they become impoverished as a result of the death.

Purchase of contribution months

The option to "purchase" additional contribution months allows individuals born before 1959 (women) or 1954 (men) to apply for a corridor pension and individuals born after that to apply for a pension settlement for the long term insured. In both cases, this is done by paying a lump sum for the required months spent in education during which the individual was not insured.

Belgium

Early retirement
The normal pension age is 65. It is however possible to retire earlier, provided that the person concerned has reached a certain age and his total career in Belgium and in countries that have a social security agreement with Belgium is sufficiently long. In 2019, employees may retire early if they are age 63 with a career of 42 years. Alternatives are available for employees who are age 60 with career of 44 years or age 61 with a 43 year career.

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.

Normal pension age
The normal pension age in Belgium is currently 65 (but this is due to increase to 66 by 2025 and 67 by 2030). It is however possible to retire earlier, provided that the person concerned has reached a specific age and his 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 (second pillar)
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.

Before 2016, the law provided a guaranteed return of 3.25% on employer contributions and 3.75% on employee contributions in defined contribution plans. Due to the recent economic climate, it was decided that these percentages were too high. Therefore, as from 2016 the return that is guaranteed corresponds to the percentage of the average return during the last 24 months on Belgian 10 year bonds. This will be a percentage between 1.75% and 3.75%. Based on these rules the guaranteed return for 2019 will be 1.75% for both employer and employee contributions.

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

State pension scheme (first pillar)
Participation in and contribution to the state pension scheme is compulsory for all citizens and employers.

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, having a child or being at least 66% permanently disabled.

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.

China

Account Manager (账户管理人)
An independent regulated entity, appointed by the Trustee, with responsibility for establishing and managing the Enterprise Annuity accounts.

Basic Pension Insurance (基本养老保险)
The state pension insurance system of the People's Republic of China. It is mandatory for employers to contribute in respect of most employees (with the exception of certain categories of temporary worker) and for most employees (the same exceptions apply) to make Basic Pension Insurance Contributions.

Basic Pension Insurance Benefits (基本养老金)
An employee must make 15 years of Basic Pension Insurance Contributions to be entitled to Basic Pension Insurance Benefits. Missing years can be topped up. Once the employee reaches Retirement Age, the benefits are paid monthly. Benefits are calculated based on the number of years in which a pensioner has made contributions, the mean wage of employees in the place where the pensioner resides, the amount contained in the pensioner's individual account and the life expectancy of the urban population.

Basic Pension Insurance Contributions (基本养老保险缴费)
The level of contributions to Basic Pension Insurance is set by local branches of the Ministry of Human Resources and Social Security, with reference to employer payroll and average salary statistics published by China's National Bureau of Statistics. In 2018, contribution rates in Beijing and Shanghai were respectively 20% of total payroll for employers and 8% of salary for employees. Employee contributions are paid into an individual account. Employer contributions are paid into a pooled account.

Corporate Trustee Institution (法人受托机构)
A trustee institution with legal personality.

Custodian (托管人)
A qualified institution appointed by the Trustee to retain custody of the Enterprise Annuity Fund.

Enterprise Annuity (企业年金)
A non-mandatory supplemental pension arrangement established by an employer with the agreement of its employees to provide money purchase benefits to its employees.

Enterprise Annuity Benefits (企业年金待遇)
Benefits become payable at an employee's Retirement Age, upon the complete loss of their ability to perform work, upon their settlement abroad or on their death. Benefits may be drawn down monthly or taken as a lump sum on retirement. Benefits are payable as a lump sum on settlement abroad or as inheritance.

Enterprise Annuity Collective Plan (企业年金集合计划)
An Enterprise Annuity Plan, established and managed by a Corporate Trustee Institution, in which more than one employer (and their employees) participate.

Enterprise Annuity Contributions (企业年金缴费)
An Enterprise Annuity is composed of employer contributions and employee contributions, with the specific proportion set out in the Enterprise Annuity Plan. Employer contributions to an Enterprise Annuity are capped at 8% of the total payroll of the employer, with total contributions by both Employer and individual Employee capped at 12%. Employee contributions are made gross of tax up to a cap of 4% of the part of the individual's average monthly salary in the previous year that does not exceed 300% of the average salary in that locality.

Employee and employer contributions must be paid into the employee's Enterprise Annuity individual account. Title to an employee's contributions vests in the employee immediately, whereas the timing by which title to the employer's contributions vests in the employee may be subject to specific rules in the Enterprise Annuity Plan. This can be upon contribution or a later date depending on the employee's years of service with the employer (but no later than 8 years after the contribution). Title to the employer's contributions shall immediately and fully vest in the employee upon the occurrence of one of the following circumstances:

(1) the death or incapacity of the employee

(2) the employee reaching Retirement Age

(3) termination or non-renewal of the employee's employment for reasons unrelated to the employee

(4) the employee's unfair dismissal by the employer

(5) termination of the Enterprise Annuity Plan for certain reasons

(6) another circumstance set out in the Enterprise Annuity Plan.

Enterprise Annuity Council (企业年金理事会)
A council appointed to act as Trustee of an Enterprise Annuity Fund, which may comprise representatives of the employer, elected non-employee professional persons, and not less than a third of the members of which must be elected employee representatives.

Enterprise Annuity Fund (企业年金基金)
The fund constituting the property attributable to the Enterprise Annuity Plan deriving from contributions and profits from investments, held by the Custodian.

Enterprise Annuity Plan (企业年金方案)
An arrangement governing an Enterprise Annuity, entered into between an employer and its employees through collective negotiations, which may be an Enterprise Annuity Single Plan or an Enterprise Annuity Collective Plan. An Enterprise shall report its Enterprise Annuity Plan to the local competent labour authority.

Enterprise Annuity Single Plan (企业年金集单一划)
An Enterprise Annuity Plan, established by an employer and managed by a Trustee, in which only one employer participates, with its employees.

Individual Commercial Pension Insurance (个人商业养老保险)
Commercial pensions insurance that does not qualify as Individual Tax-deferred Commercial Pension Insurance and which is therefore not subject to beneficial tax treatment.

Individual Savings-based Pension Insurance (个人储蓄性养老保险)
A voluntary, savings-based form of pension. A local social insurance agency opens a personal cash account for the individual saver who is able to withdraw the proceeds of the account in a lump sum or over time at Retirement Age. Contributions do not benefit from tax relief.

Individual Tax-deferred Commercial Pension Insurance (个人税收递延型商业养老保险)
Individuals in pilot areas of China (Shanghai Municipality, Fujian Province and Suzhou Industry Zone) have, since 2018, been able to deduct up to 6% (or CNY 1000, if lower) of their annual gross salary from their individual income tax bill to make contributions to qualifying pensions insurance schemes. The level is higher for the self-employed, sole-traders, sole proprietorship companies and partners in partnerships, who are able to deduct up to 6% (or CNY 12,000, if lower) of their annual pre-tax salary for this purpose.

Investment Manager (投资管理人)
A qualified institution, appointed by the Trustee, to invest and manage the Enterprise Annuity Fund..

Occupational Annuity (职业基金)
A supplemental pension arrangement established by a public sector employer to provide money purchase benefits to its employees.

Retirement Age (退休年龄)
It is mandatory for most male workers to retire at 60 and for females in managerial/technical positions to retire at 55. Most other female workers must retire at 50.

Tax (税收)
Basic Pension Insurance, Enterprise Annuity and Tax-deferred Commercial Pension Insurance contributions are made gross of individual income tax (subject to the caps set out above).

Basic Pension Insurance Benefits are paid free of tax. Enterprise Annuity Benefits are taxed at the individual tax payer's marginal rate. Tax-deferred Commercial Pension Insurance can be drawn down 25% tax free with the remainder taxed at 10%.

Trustee (受托人)
The trustee appointed by an enterprise and its employees to manage an Enterprise Annuity Fund. Only an Enterprise Annuity Council or a Corporate Trustee Institution may act as Trustee. A Trustee may not act as a Custodian but an appropriately qualified Corporate Trustee Institution may act as Account Manager and/or Investment Manager, subject to the internal separation of roles between trustee and investment staff.

France

In France it is mandatory for both employers and employees to contribute to the state pension scheme by paying social security contributions. Those contributions fund the general pension scheme and the complementary pension scheme (AGRIC - ARRCO). AGRIC and ARRCO were seperate schemes but merged on 1 January 2019.

In addition, employers and insurance companies may provide for supplementary pension schemes. In France, it is not common for employers to provide such schemes.

AGIRC - ARRCO

The federations of the compulsory occupational pension schemes implemented and run by employee and employer trade unions. The scheme is mandatory for all employers in the private sector, in addition to the general regime or MSA regime.

The new AGIRC - ARRCO scheme covers all categories of employees.

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 providing 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. This condition does not comply with European directive 2014/50 and should be reformed during 2019.

These schemes are often called "top-hat schemes".

Article 82 of the French Tax Code

A type of defined contribution or defined benefit pension scheme in France under which an employer commits to contribute on a regular basis for one of its employees. In contrast to "article 83" or "article 39", the employer contributions to this scheme are considered as a salary for the payment of social security contributions and the employee may choose to subscribe to this scheme.

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. It is mandatory for employees to sign up to this scheme.

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 €20,262 in 2019 (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
- independent workers: "CRN" for notaries, "CAVOM" for ministerial, public and judicial officers, "CARMF" for doctors, "CARCDSF" for dental surgeons and midwives, "CAVP" for pharmacists, CARPIMKO for medical auxiliaries, "CARPV" for veterinarians, "CAVAMAC" for insurance agents, "CAVEC" for chartered accountants and external auditors, "CIPAV" for consultants, "CNAVPL" for liberal professions and "CNBF" for the members of the French bar
- some employees also belong to a company with a special regime

Early retirement

Early retirement without reduction may be possible in certain circumstances: employees having a specific permanent incapacity rate linked to their professional activity, employees with a minimum length of insurance who began working at a very young age or disabled employees in certain circumstances.

General regime (régime général)

The social security scheme that applies to most individuals and most employers in the private sector.

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 AGIRC-ARRCO 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% 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 2019, the annual social security ceiling amounts to €40,524.

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 the French Tax Code" and "article 82 of the French Tax Code".

Germany

In Germany, retirement savings are based on three pillars: (i) mandatory pension insurance, (ii) private schemes and (iii) occupational pension schemes. Occupational pension schemes are voluntary and can be implemented in a number of different ways (internally and externally). Occupational pension schemes are common mainly in larger corporations and based on union agreements. The government introduced changes to the Occupational Pension Act to allow pure DC plans with limited liability, effective 1 January 2018, the aim being to make occupational pension schemes more attractive for small and middle-sized companies and low-income employees.

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 an employer financed pension scheme, but if offered it is subject to equal treatment principles. Making changes to pension schemes is complex.

There are five main types of pension scheme: direct promise, pension insurance, pension fund, support fund and staff pension fund.

Company Pension Incentivisation Act (Betriebsrentenstärkungsgesetz)

Changes to the Company Pension Act, effective 1 January 2018, allow DC pension plans with the employer's liability limited to the contributions, if such scheme is based on a union agreement. At the time of writing, no such union agreements had been concluded.

Deferred compensation

Employees who are insured under the statutory pension insurance system have a legal right (i.e. an opt-in scheme) to convert salary components in a company pension scheme (so-called deferred compensation). The convertible salary is up to 4% of the statutory pension threshold per month (i.e. €260 in 2018). Claims vest immediately.

From 1 January 2019, new deferred compensation agreements come with a mandatory employer allowance of 15% of the deferred compensation in so far as the employer saves social security contributions. For existing deferred compensation schemes, the mandatory employer allowance will start on 1 January 2022. Details are still unclear, in particular whether exisiting employer contributions can be offset against the mandatory allowance.

Direct insurance scheme

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

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.

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.

Pension Protection Association (Pensions-Sicherungs Versicherungsverein auf Gegenseitigkeit - PSVaG)

The Mutual Pension Protection Association (Pensions-Sicherungs 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.

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.

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% of the employee's gross salary (up until a threshold of €6,500 (West)/€5,800 (East) a month in 2018).

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.

Vesting periods
Upon vesting, claims to 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 a member of the scheme for three years before leaving employment and are aged 21 or older at that time. 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).

Hong Kong

In late 2000, Hong Kong implemented legislation requiring employers to enrol employees in a pension. As Hong Kong has the lowest birth rate in the world and one of the highest life expectancies, the population and workforce is rapidly ageing.

Hong Kong law requires employers to make arrangements for their employees to join a registered Mandatory Provident Fund (MPF) scheme within the first 60 days of employment. All employees who are aged at least 18 but under 65 must be enrolled, unless one of several narrow exemptions apply. Withdrawal of MPF benefits before age 65 is permitted only in limited circumstances.

Some employers still operate pension schemes under older legislation, which are called Occupational Retirement Schemes Ordinance (ORSO) schemes. ORSO schemes are generally more generous to employees and more flexible as to withdrawal than MPF schemes.

State social security systems are limited, generally covering old age and disability, and providing flat rate benefits.

Accrued benefits
The beneficial interest in an MPF scheme belonging to a scheme member. This includes: (a) contributions made by the scheme member; (b) contributions made in respect of the scheme member, e.g. by the employer; and (c) any income arising from investment of those contributions, less any investment losses and amounts paid in respect of the scheme member.

Approved pooled investment fund
An investment fund in the form of an insurance policy or a unit trust into which a constituent fund invests.

Casual employee
An employee who is employed in either: (a) the construction industry; or (b) the catering industry on either (i) a day-to-day basis or (ii) for a fixed period of less than 60 days; and who is (c) at least 18 but under 65 years of age.

Contribution account
An account into which: (a) mandatory contributions; and (b) any voluntary contributions are paid in respect of current employment (or current self-employment) of a member of an MPF scheme.

Contribution day
The date on which mandatory contributions are due to be paid by an employer in respect of its employees (or by a self-employed person as the case may be). This is:

- for regular employees – the 10th day of the month immediately following the contribution period
- for self-employed persons – the last day of the contribution period

Separate rules apply for casual employees under industry schemes, master trust schemes and employer-sponsored schemes.

Contribution holiday
A period during which regular employees are not required to make mandatory contributions. This is the first 30 days of employment and any incomplete contribution period that immediately follows. Casual employees and self-employed persons do not get a contribution holiday.

Contribution surcharge
A late charge that is imposed on employers (or self-employed persons) who fail to pay mandatory contributions by the contribution day. This is 5% of the contribution amount in arrears and is credited to the employee's account.

Default fund
A fund designated for each MPF scheme by the trustee, into which a scheme member's contributions are to be invested in the event that the scheme member fails to select a fund. The default fund can be any type of fund available under the MPF scheme.

Defined benefit scheme
An occupational retirement scheme which is not a defined contribution scheme.

Defined contribution scheme
An occupational retirement scheme which provides that the amount of a benefit under the scheme is to be determined solely by reference to:

- the contributions to the scheme's funds by or in respect of the member concerned and any declared return in respect of such contributions (where such return may be subject to a minimum guaranteed rate but is otherwise unascertainable before it is declared)
- where appropriate, the qualifying service and age of the employee

Early retirement
With limited exceptions (such as when a member permanently leaves Hong Kong), members of an MPF scheme are entitled to withdraw their accrued benefits only after reaching the age of 65. However, when scheme members cease all employment (including self-employment) and have no intention of becoming employed (or self-employed) again, they may also withdraw their accrued benefits held in the scheme, either by way of a lump sum or by instalments on the ground of early retirement at the age of 60.

Employee choice arrangement
A recent change allows employees to transfer the accrued benefits arising from their own mandatory contributions during the period they are working for their current employer. Such benefits can be transferred to a trustee and a scheme of their own choice on a lump sum basis once every calendar year.

Employer sponsored scheme
An MPF scheme whose membership is limited to the employees of a single employer or its affiliates.

Exempt person
Some employees are exempt from participating in MPF, such as the following:

- domestic employees such as maids and nannies
- self-employed travelling vendors
- people covered by statutory pension or provident fund schemes, such as civil servants and subsidised or grant school teachers
- employees (but not casual employees) who are employed for less than 60 days
- members of occupational retirement schemes which are granted MPF exemption certificates
- people from overseas who enter Hong Kong for employment on an employment visa and (a) the expected duration will be 13 months or less, or (b) who participate in a retirement scheme outside Hong Kong, and
- employees of the European Union Office of the European Commission in Hong Kong.

Frontline regulator
Frontline regulators are responsible for the supervision and investigation of MPF intermediaries. They are industry regulators appointed by the Mandatory Provident Fund Authority according to their core business as follows:

- Monetary Authority (banking)
- Insurance Authority (insurance)
- Securities and Futures Commission (securities)

Industry scheme
A registered provident scheme that is designed for employees in industries with high labour mobility. Currently there are two, which cover the construction and catering industries.

Mandatory contribution
An amount equal to 10% of the employee's "relevant income" (see below) up to a capped amount. Half is paid by the employee via payroll deduction and half is paid by the employer. There are exceptions for low-earning employees, who do not need to contribute, but whose employers must still contribute the employer's mandatory amount.

Master trust scheme
An MPF scheme whose membership is open to:

- the employees of more than one employer
- self-employed persons and former self-employed persons, and
- persons who wish to have their benefits transferred to such a scheme from an ORSO exempted scheme or an ORSO registered scheme.

MPF exempted ORSO scheme
An occupational retirement scheme in respect of which an exemption has been granted under the MPF Schemes Ordinance.

Occupational retirement scheme ("ORSO scheme")
A scheme under which benefits are payable upon the death or disability of the insured. It may be recorded in one or more documents, and must provide benefits to employees in the form of pensions, allowances, gratuities or other payments that are payable on termination of service, death or retirement.

ORSO registered scheme
An occupational retirement scheme registered under the Occupational Retirement Schemes Ordinance.

Payroll cycle
The interval at which the employee is paid by the employer for work done under his employment contract. Market practice is one month.

Personal account
An account holding a scheme member's MPF accrued benefits, including contributions and investment returns, in respect of former employment or self-employment. New contributions to this account are generally not accepted, though the accrued benefits will continue to be invested according to the scheme member's instructions, and fees and charges may still be incurred.

Regular employee
An employee who is at least 18 but under 65 years of age and has been employed for a continuous period of 60 calendar days or more, regardless of the number of hours worked.

Relevant income
Any wages, salary, leave pay, fee, commission, bonus, gratuity, perquisite or allowance, expressed in monetary terms, paid or payable by an employer (directly or indirectly) to an employee in consideration of his or her employment under a contract of employment. Statutory severance payments and statutory long service payments do not form part of "relevant income".

Special voluntary contribution
Contributions paid directly by the employee to the MPF trustee. These do not relate to employment.

Vested benefit
The amount of benefits the member is entitled to receive, either immediately or prospectively, according to the scheme rules.

Voluntary contribution
Contributions paid by employers, employees or self-employed persons into an MPF scheme that exceed mandatory contributions.

Ireland

In Ireland the state pension (contributory) is paid from the age of 66 to people who have sufficient Pay Related Social Insurance (PRSI) contributions. An individual can earn other income and still receive a state pension (contributory). The state pension (non-contributory) may be paid to people aged 66 who do not qualify for the state pension (contributory) and who pass a means test. The state pension age will increase to 67 on 1 January 2021 and to 68 on 1 January 2028.

Outside of the state pension, voluntary defined benefit and defined contribution arrangements may be offered. Many employees do not have any private or occupational pension provision and a majority of self-employed workers have no private provision. Where employers do not offer employees an occupational pension scheme or limit access to it in some way they must provide excluded employees with access to a Personal Retirement Savings Account (PRSA). A PRSA is a type of personal pension arrangement typically offered by insurance companies or financial service providers. Employers are not currently required to make employer contributions to a PRSA.

Ireland does not currently operate any automatic enrolment or mandatory pension regime for private sector employees. However, the Irish government has indicated an intention to introduce an automatic enrolment system by 2022. It is anticipated that this system will require employers to enrol certain qualifying employees into pension arrangements, and require employers and employees to make contributions. It is also anticipated that employees will be given the option to opt out.

Approved Minimum Retirement Fund (AMRF)
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 (ARF)
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.

Auto Enrolment/ Universal Pension System
A system whereby employees who are not members of a private pension scheme are automatically enrolled into a retirement savings scheme. Ireland does not currently operate such a system, but the government has indicated an intention to introduce one by 2022. Details on the specific system have yet to be finalised. Strawman proposals issued by the Department of Employment Affairs and Social Protection for consultation purposes during 2018 provide for employees, aged between 23 and 60, earning over €20,000 per annum and not already contributing to supplementary pensions, to be automatically enrolled, with employer and employee contribution gradually increasing from 1% each to 6% each over a 6 year period.

Bridging pension
An additional benefit paid between the date of retirement and some later date, when it will reduce or be discontinued. The most common type of bridging pension is paid in the interval between the date of retirement and the social welfare pension age, where social welfare benefits are taken into account in calculating the scheme pension, but members retire before these become payable.

Buy-out bond/Personal retirement 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.

Co-ordination
A term used in the public sector to indicate that the benefits payable under the social welfare system are taken into account in the occupational pension scheme. Co-ordination is generally required as a matter of policy where social welfare retirement benefits are payable. However, the calculation of the gratuity payable on retirement or death is not normally affected by co-ordination.

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. A spouse will always be regarded as a dependant.

Financial Services & Pensions Ombudsman (FSPO)
The FSPO is an independent public body tasked to investigate, mediate and adjudicate unresolved complaints of customers about financial service providers and pension providers. Previously pensions disputes were dealt with by a standalone pensions ombudsman. From 1 January 2018 the office of the Financial Service Ombudsman's Bureau and the Office of the Pensions Ombudsman were amalgamated to form the FSPO.

Frozen scheme
A scheme which provides benefits only for members whose service has terminated; or a scheme where continuing service in employment does not entitle members to accrue new pension benefits, and to which no new members are admitted.

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.

Funding standard reserve
The funding standard reserve acts as an additional buffer to the minimum funding standard requirements under the Pensions Act. A scheme's funding standard reserve will depend on its funding level and the extent to which it invests in sovereign bonds and cash. Funding standard reserve certificates must be submitted to the Pensions Authority, similar to actuarial funding certificates, to certify whether the scheme meets the funding standard reserve.

Group Scheme
A scheme involving a number of connected employers. For the Revenue to approve the Group Scheme, the employers must be sufficiently closely associated, each employer in the scheme must be under an obligation the observe the rules of the scheme and each employer must contribute in respect of their own employees only.

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.

Master trust
A multi-employer pension scheme of employers that are not connected, usually established by a third party provider. The Pensions Authority, in a recent consultation document on the regulation of master trusts, has expressed a preference for larger master trusts becoming a more common means of pension provision in Ireland in place of smaller (or one member) schemes. The Pensions Roadmap published by the government in February 2018 also envisages a greater future reliance on master trusts.

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 and that one 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 pension 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.

Pension adjustment order
An order made under family law legislation following a decree of judicial separation or divorce whereby the court adjusts a member's pension rights, awarding a designated portion in favour of the member's spouse, civil partner or a dependent child.

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.

Personal Retirement Savings Account (PRSA)
A personal pension plan taken out with an authorised PRSA provider. PRSAs are a type of personal defined contribution arrangement that operate like an investment account used to save for retirement. PRSA providers are typically insurance companies or financial service providers. Where an employer does not offer its employees an occupational pension scheme, or where it limits access in some way, it must provide excluded employees with access to a PRSA. There is currently no obligation on an employer to contribute to a PRSA.

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. Preserved benefits under the Pensions Act attract certain rights, including in relation to revaluation (inflation linking subject to a specified limit) and the right to transfer.

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. The core administration functions are the production of the trustee annual report, production of annual benefit statements for members and maintenance of accurate and sufficient records of members and their entitlements.

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 Contract
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.

Revaluation
A requirement to maintain the purchasing power of an early leaver's preserved benefit between the date of leaving service and the date the preserved benefit is payable by statute on retirement. The rate of revaluation for a full year will be either 4% or the increase / decrease in the Consumer Price Index if it is less than 4% in that year (note that provisions allowing for decreases were introduced from 2013, however the rules of many schemes provide only for increases). Every year the Minister for Employment Affairs and Social Protection makes a regulation under section 33 of the Pensions Act 1990 specifying the percentage by which preserved benefits are to be increased or decreased. The most recent regulation dated 5 February 2019 specified a 0.5% revaluation of preserved benefits for 2018.

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. Broadly, applications for such directions may be sought where a scheme fails to meet the funding standard and the trustees and sponsoring employer are unable to agree a funding proposal to address (or fully address) any deficit.

Sovereign annuity
An annuity linked to sovereign bonds issued by member states of the European Union. Unlike conventional annuities, the annuity payments under sovereign annuities 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

In Italy, the pension system in both the private and public sector is based on the so-called "distribution system". Pension benefits of current pensioners are financed through pension contributions paid day by day by current employees and employers. Similarly, the pension benefits that will be earned by current employees will be financed through contributions paid by future generations.

Age of retirement and contributory requirements

The minimum age of retirement provided for under the main public pension regime, the "old-age pension" for private employees (both men and women) in 2019 is 67 years. 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 contributions 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 employees' 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 its 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

In Luxembourg there is a contributory state pension financed by employers, employees and the state over the working life of an individual. Contributions are split equally between them. The rate is 8% of the employee's total gross income for each party (24% in total). Employers may also choose to set up a complementary occupational pension scheme for the benefit of all employees or only certain categories of employees. A complementary occupational pension scheme may also be set up for self-employed workers if they have previously been approved by the General Inspectorate of Social Security ("Inspection Générale de la Sécurité Sociale"). In addition, it is possible for individuals to build up a supplementary personal pension.

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 (for example study periods between 18 and 27 years).

Complementary occupational pension scheme
Benefits granted, on a voluntary basis, a) by the employer to its employees in order to add to those of the statutory social security scheme, or b) to self-employed workers after approval of the General Inspectorate of Social Security. 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 age pension (pension de vieillesse anticipée)
Any insured person having reached the age of 60 is eligible for an early old age pension provided that he has contributed for at least 480 months (both effective periods of insurance for at least 120 months and, what the Social Security Code refers to as assimilated periods, are taken into account).

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
A regime of complementary occupation pension schemes where the legal vehicle may take the form of either a group insurance subject to the supervision of the "Commissariat aux assurances", or a pension fund subject to the supervision of the "Commission de surveillance du secteur financier".

Internal regime
A regime of complementary occupation pension schemes 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 who has 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.

Pre-retirement
The benefit of pre-retirement is in principle subject to a minimum membership of 5 years with the applicant company. This minimum period is reduced to 1 year for employees of a company in bankruptcy or judicial liquidation.

The period of pre-retirement compensation is limited to 3 years and ends at the latest at the age of 63.

Pre-retirement adjustment due to operating needs of the business (Préretraite ajustement)
Any employer may enter into an agreement with the Labour Minister to enable its 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. The period of validity of the adjusting pre-retirement agreement is in principle limited to one year.

Pre-retirement for employees regularly working at least seven consecutive hours each day partly at night or working in shifts (Préretraite des travailleurs postés et des travailleurs de nuit)

Any employee having reached the age of 57 and who has worked for 20 years, or for 15 years during the 25 years immediately preceding the pre-retirement, 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 22:00 and 6:00

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% nor exceed 60% of normal working time

Solidarity pre-retirement (Préretraite solidarité)

Since 1 July 2018, the solidarity pre-retirement has been abolished in Luxembourg. However, companies that have concluded a collective bargaining agreement before 30 June 2018, which contains a solidarity pre-retirement scheme, may continue to apply for solidarity pre-retirement until the end of the collective agreement. Solidarity pre-retirement also continues to apply in companies covered by solidarity pre-retirement agreement signed before 1 July 2018 with the Labour Ministry, for a maximum period of 2 years.

The following are eligible for solidarity pre-retirement:

- employees who have 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.

Solidarity Statutory pension scheme

This is the mandatory pension insurance system financed by employers, employees and the state. Contributions are equally split between them. The rate is 8% of the employee's total gross income for each party (24% 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 granted on the basis of the insurance career of the employee. The number of years taken into account may not exceed 40

The amount of an old age pension may not be less than 90% 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 €16,980.24 (index 814.40). The minimum monthly old age pension amounts to €1,841.51 and the maximum monthly old-age pension amounts to €8,525.50.

Recently, the gross pension replacement rate has been between 82% and 103%, depending on the amount of the gross income of the insured person.

Netherlands

The Dutch pension system consists of three pillars: state pension (AOW), additional pension accrual via the employer and supplementary individual pension insurance policies. Everyone who lives or works in the Netherlands is automatically insured for the AOW. About 90% of employers have a supplementary pension scheme. The contribution to the pension scheme is tax-deductible under certain conditions. The benefit from the retirement date is taxed. In the Netherlands, many sectors have their own compulsory pension scheme. This is often a defined benefit pension scheme, although there is an increasing transition to defined contribution schemes. In the sectors where there is no mandatory pension scheme, there is often a defined contribution scheme.

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 EU member state.

Deferred member (Gewezen deelnemer)
The employee or former employee who no longer accrues pension entitlements 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 entitlement to a pension benefit that has not yet become payable, apart from agreed conditional indexation.

General pension fund (Algemeen Pensioen Fonds (APF))
A pension fund 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 in segregated 'rings'.

Insurer (Verzekeraar)
An insurer allowed to operate a life or non-life insurance company in the Netherlands under the Financial Supervision Act (Wet financieel toezicht, WFT).

Old-age pension (Ouderdomspensioen)
A monetary, fixed benefit for the employee or former employee intended as a source of income in old age.

Ongoing investments in decumulation phase (Wet verbeterde premieregeling / Doorbeleggen na pensioendatum)
Relevant to DC only. Due to the creation of a variable pension annuity by law, the flexible opportunity of ongoing investments after retirement in DC schemes may lead to an increased pension income. At the same time, there is an uncertainty about the consistency of the pension benefit. This variability may increase the chance of obtaining a favourable annuity in a low interest environment.

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, deferred scheme members or their surviving dependants or retirees are or have been collected and are managed for the implementation of, at a minimum, a base pension scheme. There is a well-developed legal and financial framework in pensions law for pension funds. Pension funds have to be a foundation.

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 or rules (Pensioenreglement)
The rules drafted by the pension provider concerning the relationship between pension provider and scheme member.

Pension right (Pensioenrecht)
The right to a pension benefit that has become payable, excepting an agreed conditional indexation.

Premiepensioeninstelling (PPI)
A company or foundation set up to administer the accrual of defined contribution schemes, or other schemes where the PPI does not bear the technical insurance and investment risks, which are considered occupational pension schemes under the applicable law. A PPI could only operate during the accrual phase.

Premium (Premie)
The amount, owed to the pension provider and intended for the insurance of pension and associated costs. There is a wide set of rules and minimum standards to set the level of contribution.

Ring with separate capital in an APF (Collectiviteitskring) and resistance power (weerstandvermogen) in an APF
The APF retains separate (ring-fenced) assets for one or more pension schemes (group of employers). An APF could have multiple rings. There is a strict separation of assets and liabilities per ring.

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.

Norway

The Norwegian pension system is based on the National Insurance scheme and mandatory company pension plans. All employees accrue pension rights in the National Insurance scheme based on salary earned each year from age 13 up to 75. In addition to the National Insurance pension, all employers, with a few exceptions, are obliged to offer a company pension scheme, either defined benefit or defined contribution. The minimum requirement is an employer contribution of 2% of employees' salary between one and 12 times the National Insurance base amount (G). 1G currently constitutes NOK 96 883 (as of May 2018).

AFP

AFP is short for Contractual Pension and is a scheme that automatically follows from the major collective bargaining agreements. The AFP scheme is a multi-employer scheme administered by a joint administration body established by the main employer and employee organisations. The AFP scheme was originally an early retirement scheme applying between the ages of 62 to 67, but was changed in 2011 and now it provides instead a lifelong supplement to either salary or retirement pension. Since taking a pension early leads to loss of pension accrual as well as a lower annual pension (due to the pension being spread over a larger number of years) most employees who take out AFP pension continue to work, either full or part time.

Employees do not accrue pension rights in the AFP scheme, as such, but must fulfil certain conditions regarding length of service at the time they reach 62 as well at the date of payment. The AFP scheme is partly financed by the state and partly by the participating employers by way of premiums which currently constitute 2.5% of the employee's salary between 1 and 7.1 G. The premium level has increased annually and is expected to continue to increase. The actuarial community has expressed the view that a sustainable future premium level should be at least 5%. It is commonly agreed that the AFP arrangement needs to be revised and it has now been decided to carry out a more comprehensive study and review of possible changes and adjustments to the arrangement.

Company pension

In addition to the national insurance, employers in Norway are, according to the Mandatory Occupational Pension Act 2006, required to offer a company pension scheme to their employees. The minimum requirement is in accordance with the Defined Contribution Pensions Act 2000, where the minimum contribution paid by the employer must constitute 2% of the employees' salary between 1 and 12G (G = NOK 96,883). Alternatively, employers can offer a defined benefit pension in accordance with the Defined Benefit Pensions Act 2000, or a hybrid version in accordance with the Occupational Pension Act 2013.

Most pension schemes are established through insurance companies, but some larger corporations have established their own pension funds (Pensjonskasse). Pension schemes established in accordance with any of the applicable pension acts are tax favourable. Employer contributions/premiums are tax deductible and employees are not taxed on contributions/premiums – only on the pension when it comes into payment.

Defined benefit schemes

Under defined benefit schemes the employee is entitled to a pension equivalent to a certain percentage of his or her final salary, normally 66%. The pension from the defined benefit scheme does not, in itself, cover the full 66%, as it is calculated in combination with an estimated and pre-calculated pension from the national insurance. The pre-calculation of the national insurance is based on set formulas used by the insurance companies and, if the actual pension from the national insurance is lower than the pre-calculated pension, this will be the employee's loss.

Full pension rights are conditional upon 30 years of service, but full pension rights will in any case not be accrued until age 67. Pension rights under defined benefit schemes are accrued annually based on length of service and salary level. This implies that when the salary increases the next premium will be based on the new salary, and in addition, the employer will be required to pay a supplemental premium in order to bring the existing premium reserve up to a level that reflects the new salary (the catch-up effect). Accrued pension rights should therefore, insurance-wise, be fully funded at all times. Accounting-wise however, there will often be a deficit due to the fact that the applicable accounting principles require that the future obligation (PBO) is accounted for, which due to expected salary increases among other things, will be higher than the current obligation (ABO).

Pension in payment is, as a rule, subject to annual regulation based on scheme surplus and therefore does not require additional funding from the employer. Some employers have, however, committed themselves to provide additional funding should the surplus not be sufficient. On death, the applicable premium reserve will benefit the rest of the insurance group.

Defined benefit schemes are in decline and insurance companies no longer offer new defined benefit schemes. There are however a significant number of old schemes still in place.

Defined contribution scheme

Under defined contribution schemes the employer's obligations and risks are limited to paying the agreed contributions which must as a minimum constitute 2% of the employees' salary between 1 and 12G, and maximum 7% of salary from 0 to 7.1G and 25.1% of salary between 7.1 and 12G. G = NOK 96 883. The schemes are collective and the employees cannot choose not to participate. The contribution rate must be the same for all employees. The employer and the employees can agree that the employees will cover parts (but not more than 50%) of the contribution through salary deductions. The size of the final pension benefit will depend on the contributions paid and return on capital. On death, the accrued pension capital is paid to the employee's heirs.

Hybrid schemes

Hybrid schemes are a combination of defined contribution schemes and defined benefit schemes. The pension rights are accrued based on agreed contributions just like in defined contribution schemes, but the employer can choose between various forms of regulation during both the accrual period and the payment period, and the pension is payable for life. On death, the applicable premium reserve will benefit the rest of the insurance group.

Individual pension arrangements

As the tax favoured pension schemes described above do not provide any pension based on the portion of salary exceeding 12G (NOK 1,162,596), it is not uncommon to offer individual arrangements to executive personnel with higher salaries (top-hat pensions). Such additional pension is normally agreed on an individual basis but some of the larger corporations offer top-hat pensions as a collective scheme. These schemes or agreements are structured as a future pension promise from the employer which is financed and paid directly. Contributions are not normally made to these schemes, but instead the obligations are accounted for in the balance sheet. As these arrangements are established outside the applicable pension acts, they are not tax favoured.

Some employers offer early retirement arrangements for executives but these are quite expensive and less common than top-hat arrangements. Early retirement arrangements usually imply that the employer provides the employee with a pension from the age of 62 to 67 equivalent to 66% of his or her salary. The employer will normally have to cover the full 66% during this period. In addition, it is normal to compensate the employee for his loss of pension accrual in the collective schemes during the early retirement period since active employment is a condition for participation in these schemes.

Top-hat pensions have historically been defined benefit based (66% of final salary), but it has over the recent years become more common to structure top-hat schemes as defined contribution schemes where the employer pays a contribution equivalent to a certain percentage of salary exceeding 12G. Many insurance companies offer products for this type of contribution based pension saving for salaries exceeding 12G. To avoid the employee being taxed on the contributions, a common structure is for the employer to establish, maintain and hold life insurance. The employer is entitled to the pay-out from the insurance, but is subject to an underlying private agreement to forward the payments to the employee.

It is common that an employee who resigns or is dismissed (unless for gross breach of duty) is entitled to a proportionate pension based on actual service vs. full service. In contribution based pension schemes, the employee would be entitled to the accrued capital at the time of termination.

National insurance

All individuals between the age of 13 and 75 with pensionable income, accrue pension rights in the national insurance scheme. Pension rights in the national insurance scheme are accrued as an individual pension pot constituting 18.1 % of an individual's pensionable income limited to 7.1G (G = the National Insurance base amount, currently NOK 96,883). Accrued pension rights are subject to annual regulations and the annual pension is calculated at the time the pension is taken out based on the applicable life expectancy (which is set the year the employee turns 61). Pension can, subject to certain conditions, be taken out from age 62, and in any case from 67, which is the normal retirement age in Norway. An employer can, however, not force an employee to retire before age 72 (or 70 if established as the company's retirement age). The pension is payable for life.

Public pension schemes

There are various public pension schemes for employees working in public institutions and companies, or otherwise connected to state or municipality owned institutions/companies. The main schemes are the State Pension Fund (Statens Pensjonskasse SPK) and the Municipalities National Pension Fund (Kommunal Landspensjonskasse KLP).

Both the SPK and the KLP are currently defined benefit schemes, but the risks and liabilities for the employers differ.

Both schemes offer a gross pension equivalent to 66% of salary combined with the pension from national insurance. This means that the schemes cover the difference between 66% of final salary and the actual national insurance pension to which the employee is entitled at age 67, whereas private defined benefit schemes only offer the difference between 66% of final salary and an estimated pre-calculated pension from the national insurance, which in general is assumed to be higher than what most employees actually receive.

It has recently been decided to implement substantial and comprehensive changes in the public pension schemes, which most likely will come into force as from 1 January 2020 and fully affect all members born after 1 January 1963.

The purpose of the changes is to make the public pension schemes more sustainable and also to make it more profitable from a pensionable point of view to postpone retirement. Some of the key features and main principles of the new public pension schemes are: 1) the pension is calculated irrespective and independent of the employee's pension from the National Insurance, 2) the employee can accrue pension during every year of employment until the age of 75, 3) the employee can start taking out pension at any time from the age of 62, and in combination with continued employment and payment of ordinary salary, and 4) the yearly pension amount is paid for life and calculated by comparing the employee's accrued pension amount with applicable life expectancy.

The changes also include adjustments in the public AFP making it more similar to the private AFP.

Termination of employment

When an employee leaves a company the employee will, if employed for 12 months or more, be entitled to a paid-up policy (under defined benefit schemes) or a pension capital certificate (under defined contribution schemes and hybrid schemes). The paid-up policy represents the employee's accrued pension rights based on length of service and salary level at the time of resignation/termination. The paid-up policy is administered by the insurance company providing the relevant pension scheme. The paid-up policy will be subject to pay-out from age 62 at the earliest. The same applies to the pension capital certificates.

Poland

The Polish pension system is a mix of compulsory pension institutions provided by the state (retirement benefits from Social Security Fund) and voluntary, additional instruments provided by employers (such as employee pension programs) or arranged individually by employees (such as individual retirement accounts). With the introduction of Employee Capital Plans from 1 January 2019, participation of private investment companies in managing the retirement funds is likely to increase significantly.

Early retirement

Polish law provides for the possibility of early retirement (before reaching universal retirement age) upon meeting certain criteria, such as working in specific conditions or work of specific nature, envisaged in a list published by the government. The list of works include for example work in mining, metallurgy or the chemical industry.

Employee Capital Plan

From 1 January 2019 a reform of the Polish pension system was implemented and Employee Capital Plans were introduced. Employee Capital Plans are a new form of savings for pension benefits and are established by all employers. Depending on the number of employees, the Employee Capital Plans are being introduced gradually from 1 July 2019 to 1 January 2021.

The contributions to the Employee Capital Plans are covered by both the employer and the employee, with additional preferential financing provided by the state. Basic contributions are 1.5% of salary (paid by employer) and 2% of salary (paid by employer) and may be increased to not more than 4% (paid by employee and employer) which gives a maximum of 8% in total.

Employees may decide to opt out from the Employee Capital Plan, but such employee will be automatically re-enrolled to the plan on a periodic basis.

Employee Pension Program

A type of voluntary program of accruing funds for retirement within Pillar III of the Polish retirement system. The Employee Pension Program is created on the basis of an agreement between the employer and the pension (investment, insurance) fund, with the involvement of employee representation.

Depending on the agreement, both employer and employee can contribute to the Employees Pension Program.

Individual Retirement Account and **Individual Retirement Protection Account**
Types of voluntary ways of accruing funds for retirement within Pillar III of the Polish retirement system. The accounts are maintained by pension (investment, insurance) funds on the basis of a contract concluded with the individual employee.

The funding is on the employee's side and both types of account provide for specific tax benefits for the participant. There are limits on annual contributions applicable to both types of accounts.

Open Pension Fund
Open Pension Funds are administered by universal pension fund management companies and are aimed at accruing and depositing funds, which are paid out to the participants of the given fund upon reaching retirement age.

Participants may decide whether to transfer all contributions to the sub-account with the state owned Social Security Fund or transfer part of their contributions to the Open Pension Fund. The funds in Open Pension Funds are converted into state pension (Pillar I) ten years prior to reaching retirement age. Every four years, a transfer period is opened, during which the person may decide whether the contributions will be kept in the state owned sub-account or transferred to the Open Pension Fund.

Retirement System Pillars
The Polish retirement system is based on three pillars:

Pillar I - state pension (Social Security Fund)

Pillar II - mandatory funded pension (Open Pension Funds)

Pillar III - voluntary funded pension (Employee Pension Programs, Individual Retirement Accounts, Individual Retirement Protection Accounts, Employee Capital Plans).

Social Security Authority
A state institution responsible for managing social security issues in Poland. Apart from pensions, its scope of tasks covers collection of contributions for social and health insurance, payment of benefits and managing individual accounts for insured persons.

Social Security Fund
A state special purpose fund divided into sub-funds: pension fund, social security fund, work accident fund and sickness fund, where contributions for specific types of social insurance are collected and managed. Payment of social security benefits (including old age pension) is covered from the Social Security Fund.

State Pension
A monetary benefit which is aimed at securing the wellbeing of a pensioner, due after reaching the applicable retirement age and length of service. For persons born after 31 December 1948 it is due after reaching the universal retirement pension age.

Universal Retirement Age
The universal retirement age in Poland is 60 years of age for women and 65 years of age for men.

South Africa

The South African pension system is based on a three pillar design namely: (1) non-contributory, means-tested public benefit program; (2) occupational retirement plans comprising of various pension and provident fund arrangements; and (3) voluntary savings.

The first method refers to a governmental grant which provides a monthly minimum income of R 1 700 to a South African citizen or permanent resident over the age of 60 who meets the means-tested criteria. This is the main source of income for a large portion of the elderly population who do not have pension benefits.

Occupational retirement plans are limited to those employed in the formal sector. Insofar as voluntary savings is concerned, tax incentives are provided for saving for retirement through voluntary savings vehicles, for example, through retirement annuity fund policies. These are primarily offered by the insurance sector.

Deferred pensioner
A member who has not yet retired but has left the employment of the employer concerned before his normal retirement date, leaving in the fund the member's right to benefits as defined in the rules.

Normal retirement age
This means:

a) in the case of a member of a pension fund or provident fund, the date on which the member becomes entitled to retire from employment for reasons other than sickness, accident, injury or incapacity through infirmity of mind or body

b) in the case of a member of a retirement annuity fund, a pension preservation fund or a provident preservation fund, the date on which the member attains 55 years of age

c) in the case of a member of any fund contemplated in this definition, the date on which that member becomes permanently incapable of carrying on his occupation due to sickness, accident, injury or incapacity through infirmity of mind or body

Officer
Any member of a board, any manager, principal officer, treasurer, clerk or employee of the fund, not including an auditor or valuer.

Pension fund and Pension fund organisation
This means:

a) any association of persons established with the object of providing annuities or lump payments for members or former members of such association upon their reaching retirement dates, or for the dependants of such members or former members upon the death of such members, or

b) any business carried on under a scheme or arrangement established with the object of providing annuities or lump sum payments for persons who belong or belonged to the class of persons for whose benefit that scheme or arrangement has been established, when they reach their retirement dates or for dependants of such persons upon the death of those persons, or

c) any association of persons or business carried on under a scheme or arrangement established with the object of receiving, administering, investing and paying benefits that became payable in terms of the employment of a member on behalf of beneficiaries, payable on the death of more than one member of one or more pension funds

and includes any such association or business which in addition to carrying on business in connection with any of the objects specified above also carries on business in connection with any of the objects for which a friendly society may be established, as specified in section 2 of the Friendly Societies Act 1956, or which is or may become liable for the payment of any benefits provided for in its rules, whether or not it continues to admit, or collect contributions from or on behalf, of members.

Retirement date
The date on which:

a) a member of a pension fund, pension preservation fund, provident fund, provident preservation fund or retirement annuity fund, elects to retire and in terms of the rules of that fund, becomes entitled to an annuity or a lump sum benefit or subsequent to attaining normal retirement age; or

b) a nominee or dependant of a deceased member of a pension fund, pension preservation fund, provident fund, provident preservation fund or retirement annuity fund, in terms of the rules of that fund, becomes entitled to an annuity or a lump sum benefit on the death of the member.

Stakeholder
A current member, including a pensioner and a deferred pensioner, a former member and an employer participating in the fund.

Surplus apportionment date
The first statutory actuarial valuation date following the commencement date. The commencement date being the date of commencement of the Pension Funds Second Amendment Act 2001.

Spain

In Spain there is a contributory state pension to which employees and employers contribute through their social security contributions over the working life of an individual. There is also a minimal, non-contributory state pension for those who do not qualify for the contributory state pension. In addition, some individuals make arrangements to pay into private pension schemes and some employers may offer an occupational pension scheme (although these are less common).

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 activa)
Provided certain conditions are met, an individual who has reached ordinary retirement age can opt to receive 50% 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 (provided that at least 15 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 8% per year (pro rata for periods of less than a year) relative to the ordinary retirement age).

Countable periods (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% and 50%, establishing a working day of between 75% and 50% respectively).

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 provided that they meet all the requirements, including the requirement to have made at least 33 years of social security contributions (two of these years must be within the 15 year period prior to retirement), 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 provided they have a minimum of 35 years of social security contributions (two of these years must be within the 15 year period prior to retirement).

Ordinary retirement age (Edad ordinaria de jubilación)
Ordinary retirement age in 2019 is either 65 years of age or 65 years of age and 8 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 2019, this option is available once an individual is either 61 years and 8 months of age or 62 years and 4 months of age (depending on the number of years of social security contributions). An individual must have a minimum of 34 years and 9 months 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% and 50%, establishing a working day between 75% and 50% respectively) and will receive their pension benefit in inverse proportion to the reduction of working time. For example, if an individual works 50% he will receive 50% of his salary and 50% of his pension.

Postponed partial retirement (Jubilación parcial diferida)
This option is available once an individual has reached ordinary retirement age. It allows the 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 2019, for ordinary employees, the maximum amount which could be taken into account was €4,070.10 monthly.

Switzerland

AVS (Alters-und Hinterlassenenversicherung - AHV) – 1st pillar
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 – 2nd pillar
Employees who are paid a salary exceeding CHF 21,330 (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 portion of annual salary between CHF 24,885 and CHF 85,320 must be insured. If the co-ordinated salary is less than CHF 3,555 per year, it is rounded up to that amount.

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 for males, 64 for females). 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
The pensionable salary of an employee may not exceed ten times the maximum of the compulsory insured salary (i.e. CHF 853,200).

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% 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 five years following their registration with a Swiss occupational benefit institution (limited to 20% 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.

USA

In the United States, retirement savings are largely driven by voluntary employer-provided pension plans. Employers are provided tax incentives for offering such plans, conditional on meeting strict qualification requirements. Modern employee pension benefit plans are primarily defined contribution plans, such as 401(k) plans; however, defined benefit plans are still prevalent in the public sector and collective-bargaining context.

Controlled group
A group of related businesses treated as a single employer for the purposes of certain ERISA and federal tax code provisions based on the concept of common ownership.

Defined benefit plan
A plan that provides benefits based on a predetermined formula, as opposed to an account-based plan. While once the primary method of providing retirement benefits, in recent years these plans have largely been replaced by defined contribution plans.

Defined contribution plan
A plan that provides benefits based on individual accounts for each participant, such as a 401(k) plan. Participants usually have the ability to direct the investment of their accounts from a menu of pre-specified investment options.

Determination letter
A letter issued by the Internal Revenue Service (the IRS) affirming the tax-qualified status of a plan. Upon successful application and receipt, plans may rely on the determination letter as recognition of the plan's qualified status. However, as of 31 January 2017, the IRS has discontinued the determination letter program for many types of plans.

Employee
For retirement plan purposes, an employee generally means a worker who would be considered an employee under the traditional common law tests for employee status, such as being subject to the direction and control of an employer. Being an employee rather than an independent contractor or other non-employee status is important for retirement plans in the United States, because allowing a non-employee to participate in a qualified retirement plan could result in the plan losing its tax-qualified status.

Employee Stock Ownership Plan (ESOP)
A defined contribution plan, or a portion of a defined contribution plan, that holds employer stock. In some cases, these plans are funded by a loan through which a large block of employer stock is acquired by the plan and then allocated to employees over time on a tax-favored basis.

ERISA
The Employee Retirement Income Security Act of 1974. As the title states, ERISA was enacted in order to protect employees and serve as a system for regulating employee benefits consistently across the nation at the federal level.

Fiduciary
ERISA requires individuals with certain control or influence over a plan to abide by a strict set of fiduciary duties and responsibilities. The determination whether an individual is a fiduciary is a functional and fact-based analysis. The corresponding responsibilities are based on the well-established principles of trust law, requiring duties of loyalty, care and prudence.

Individual Retirement Arrangements (IRA)
Individual Retirement Arrangements or IRAs are tax-favored retirement accounts that are generally set up by individuals, rather than employers. While IRAs provide a vehicle for retirement savings, they are generally not covered by ERISA and are instead subject to less-complex qualification requirements.

Multiemployer plan
A single plan to which more than one employer contributes pursuant to collective bargaining agreements. These plans usually cover exclusively unionized employees and are generally structured as defined benefit pension plans.

Non-qualified deferred compensation
A plan or arrangement that provides for the deferral of compensation without meeting the federal tax-qualification requirements, usually limited to executives and/or highly paid employees. Such arrangements are not prohibited or inherently disfavored; however, they must generally be unfunded and comply with the terms of federal tax code section 409A.

Pension Benefit Guaranty Corporation (PBGC)
A federal agency created by ERISA in order to provide a system of plan termination insurance in the event a qualified defined benefit plan terminates with insufficient assets. Defined benefit plans pay premiums to the PBGC to fund the insurance coverage, and the PBGC takes an active role in monitoring and taking action with respect to underfunded and at-risk plans.

Plan assets
An ERISA term referring to the monies or properties that belong to the plan from which the participants' benefits as well as expenses of the plan are paid. Plan assets include the amounts held in trust but plan assets can, in certain circumstances, also include the underlying investments of a fund held in trust. This is important because the manager of such an investment fund could be liable as a fiduciary to the plan and could inadvertently engage in a prohibited transaction with respect to the plan.

Plan sponsor
The organization(s) that establish and maintain the plan. This is generally the employer, although there are plans with multiple employer sponsors or other organizations as sponsors.

Prohibited transaction
Specified transactions between an ERISA plan and certain related parties and fiduciaries that are deemed to create a conflict of interest and are thus prohibited in the absence of an exemption provided under the statute or issued by the Department of Labor.

Qualified plan
A plan that meets the requirements under federal tax code section 401(a). Qualified status allows the employer to take an immediate tax deduction for contributions, the participants to defer taxes until distribution, and the trust to not be taxed on its earnings. Failure to satisfy the qualification requirements can result in adverse tax consequences in each of these areas.

Rollover
The tax-free transfer of amounts from a qualified plan to another qualified plan or IRA. Such rollovers may be made by a plan administrator directly to another plan (a "direct rollover") or by a participant themselves (an "indirect rollover").

Section 409A
The section of the federal tax code addressing the complex regulation of non-qualified deferred compensation arrangements. If the requirements are not satisfied, the service provider is generally subject to immediate income tax and an additional 20% tax, as well as potential underpayment interest.

Summary Plan Description (SPDs)
A written summary of the provisions of an ERISA plan. United States retirement plans generally have formal plan documents, and SPDs are required by ERISA to describe the plan in terms that can be understood by the average plan participant.

Trustee
The entity or individual with the authority over the assets of the plan held in trust for the benefit of the plan participants. In many cases, the trustee is an institutional "directed trustee" that operates with limited or no discretion and is bound by specific directions from plan fiduciaries or investment managers.

Vesting
The nonforfeitable amount of benefit to which a participant is entitled. ERISA imposes minimum vesting standards applicable to both defined benefit and defined contribution plans. Generally, defined benefit plans must vest in accordance with either a five year cliff or a three to seven year graduated schedule. A defined contribution plan generally must vest according to either a three year cliff or a two to six year graduated schedule. These are minimum vesting requirements, and plans are free to provide for more generous vesting provisions.

401(k) plan
A 401(k) plan is a type of defined contribution plan that meets the requirements of federal tax code section 401(k). These plans allow employees the ability to defer portions of their salary via pre-tax employee contributions, often with employer matching contributions on all or a portion of the amounts contributed.

Pensions Age Awards 2018: Winner, Pensions Law Firm of the Year

Pensions Insight DC Awards 2018: Winner, Best Workplace Pensions Initiative (for the Simpler Annual Statement)

UK Pensions Awards 2017: Winner, Pension Lawyers of the Year

European Pensions Awards 2016: Winner, European Pensions Law Firm of the Year

Pensions Age Awards 2016: Winner, Pensions Law Firm of the Year

Engaged Investor Trustee Awards 2016: Winner, Best Trustee Education Provider

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