



Pensions
Management
Institute

ACHIEVING PENSIONS EXCELLENCE

PENSIONS TERMINOLOGY

PMI/PRAG Publication

Sponsored by

TOWERS WATSON





New ideas emerge

from collaboration

Gain perspective and clarity to achieve real-world results.

In today's economy, you need advisers with a breadth of skills and expertise. With insights into your specific business issues. Who can work with you to develop the right benefit solutions.

Towers Watson brings together global perspectives on people, risk and financial issues to help you build a clear path to improved business performance.

To find out how we can work together for the benefit of your organisation, please contact your Towers Watson consultant, or Simon Bleach +44 20 7227 2434/simon.bleach@towerswatson.com

Towers Watson. A global company with a singular focus on our clients.

Benefits
Risk and Financial Services
Talent and Rewards

towerswatson.com

Copyright © 2011 Towers Watson. All rights reserved.
TW-EU-2011-20. May 2011.

Towers Watson is represented in the UK by Towers Watson Limited,
Towers Watson UK Limited and Towers Watson Capital Markets Limited.

TOWERS WATSON





Pensions
Management
Institute

ACHIEVING PENSIONS EXCELLENCE

PENSIONS TERMINOLOGY

A GLOSSARY FOR PENSION SCHEMES - REVISED AND UPDATED, EIGHTH EDITION 2011

FIRST PUBLISHED 1980
SECOND EDITION 1984
THIRD EDITION 1988
FOURTH EDITION 1992
FIFTH EDITION 1997
SIXTH EDITION 2002
SEVENTH EDITION 2007
© 2011

The Pensions Management Institute
PMI House
4-10 Artillery Lane
London E1 7LS
Telephone: 020 7247 1452
Fax: 020 7375 0603
www.pensions-pmi.org.uk
e-mail: education@pensions.pmi.org.uk

ISBN 978-1-907928-10-9

PMI/PRAG Publication

CONTENTS

	Page
Foreword	1
Introduction	2
Notes on using the glossary	4
Definitions	5
Abbreviations	129
Pensions Research Accountants Group	135
The Pensions Management Institute	137

FOREWORD

For more than 30 years, the Pensions Management Institute (PMI) and Pensions Research Accountants Group (PRAG) Pensions Terminology publication has been an essential guide for the pensions industry. Towers Watson is delighted to be the sponsor of the 8th edition.

This is a period of unprecedented change in the pensions world. New legislation, such as the Minimum Income Requirement and auto-enrolment, is driving an ever-evolving and expanding pensions lexicon. And those exposed to this glossary are growing in number too. Funding challenges, de-risking opportunities and the shift from defined benefit to defined contribution plans have led senior finance, treasury and human resources professionals to become more involved with their organisation's pension arrangements.

The many acronyms, terms and phrases that make up today's pensions terminology can seem opaque to some. However, understanding the precise meanings of these terms can be critical for plan sponsors' finances and for members' retirement incomes.

With this handbook, the PMI and PRAG continue to provide the industry with a definitive glossary to help facilitate clear, unambiguous communications and to ensure common understanding and purpose in this increasingly complex world. Towers Watson is very pleased to be able to support this.

Mark Stewart

Head of Retirement Solutions, EMEA
Towers Watson

INTRODUCTION

It is now some 31 years since the first edition of 'Pensions Terminology' was produced. It was developed to encourage all pension practitioners to speak the same language. There have been regular reviews since, as the number of terms have increased requiring definition and explanation; this reflects the continuing and increasing complexity of the subject, as well as the quantity of legislation which surrounds it. The current review has been no exception, and there have been a considerable number of new definitions included in this 8th edition.

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

As in previous Working Parties, the objectives were to:

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

This edition has been published following the Pensions Act 2008. The imminent implementation of automatic enrolment has given rise to a further raft of terms to be included in the glossary. The Working Party has also examined the existing terms, and adjusted the definition where it was concluded that it was required, sometimes merely to change the name of the government body responsible for the particular pension term or procedure.

Investment matters remain significant for trustees and their advisers, and therefore the opportunity has been taken to include more investment terms in the glossary which the Working Party considered were in common use and relevant.

PMI and PRAG wish to acknowledge the considerable work of the Working Party in the preparation of this publication.

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

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

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

NOTES ON USING THE GLOSSARY

Actuarial Methods

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

Cross References

Bold typeface indicates a term defined elsewhere in the glossary.

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

Abbreviations

The following abbreviations have been used throughout the text:

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

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

Technical Terms

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

AAF 01/06

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

*The guidance was issued in June 2006 and expanded in June 2009. It replaced **FRAG21/94** guidance.*

A-DAY

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

ABSOLUTE RETURN

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

ACCELERATED ACCRUAL

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

ACCOUNTING BASES

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

ACCOUNTING POLICIES

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

*These might include decisions on accounting for conversion of foreign currency, the valuation of investments and recognition of dividend income, and the extent to which a **cash basis** is used.*

ACCOUNTING STANDARDS BOARD (ASB)

The role of the Accounting Standards Board (ASB) is to issue **accounting standards** in the United Kingdom. It collaborates with accounting standard-setters in other countries and the International Accounting Standards Board (**IASB**) in the development of international standards.

ACCOUNTING STANDARDS

Accounting standards developed by the **Accounting Standards Board** are contained in **Financial Reporting Standards (FRSs)**. Standards are issued following consultation in Discussion Papers and Financial Reporting Exposure Drafts (FREDs).

ACCRUAL RATE

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

ACCRUALS CONCEPT

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

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

ACCRUED BENEFITS

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

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

ACCRUED RIGHTS

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

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

ACCUMULATED CONTRIBUTIONS

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

ACTIVE INVESTMENT MANAGEMENT

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

ACTIVE MEMBER

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

ACTIVE RISK

A measure of **volatility** of fund performance compared with that of the **benchmark** return. In technical terms, it is defined as the forecast standard deviation of annual returns versus the **benchmark**.

*Active risk is usually quoted **ex-ante**; the **ex-post** measure of **volatility** of actual returns more usually being referred to as realised tracking error.*

ACTUARIAL ASSUMPTIONS

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

*See also **Actuarial Valuation Assumptions**.*

ACTUARIAL CERTIFICATE

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

Actuarial certificates include:

- (a) the **reference scheme test** certificate
- (b) the **certificate of technical provisions**
- (c) the **schedule of contributions** certificate
- (d) the **bulk transfer** certificate
- (e) the **deficit reduction contributions certificate**

ACTUARIAL DEFICIENCY

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

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

ACTUARIAL EQUIVALENCE

A test of actuarial value which compares **benefits** immediately before and after a modification of benefits.

*For the test to be satisfied the total value of the **member's subsisting rights** immediately after the modification must be no less than the value of those rights immediately before the modification. This term is used in connection with **Section 67** of PA95 (as amended by PA2004).*

ACTUARIAL GAINS AND LOSSES

Used in **FRS 17** and **IAS 19** to mean changes in an **actuarial deficiency** or actuarial surplus that arise because:

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

ACTUARIAL LIABILITY

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

ACTUARIAL REDUCTION

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

ACTUARIAL REPORT

Under PA2004 a written actuarial report (funding update) prepared and signed by the **scheme actuary** on the developments affecting the scheme's technical provisions since the last **actuarial valuation** or report was prepared.

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

ACTUARIAL SURPLUS

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

*See also note under **Actuarial Deficiency**.*

ACTUARIAL VALUATION

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

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

*See also **Actuarial Report**.*

ACTUARIAL VALUATION ASSUMPTIONS

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

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

ACTUARIES' CODE

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

ACTUARY

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

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

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

*See also **Scheme Actuary**.*

ADDED YEARS

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

ADDITIONAL PENSION

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

ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

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

*See also **FSAVCs**.*

ADMINISTRATOR

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

ADMITTED BODY

An organisation that chooses to be admitted to the **LGPS** in order to provide access to the scheme for some or all of its employees.

Admitted bodies usually provide a public service.

AGE DISCRIMINATION

The unlawful discrimination by **employers** and **trustees** or managers of a **pension scheme** against **members** or prospective members on the basis of age. There are exemptions for certain age-related rules and practices in pension schemes.

The relevant statutory provision is the Equality Act 2010. This incorporates the previous Employment Equality (Age) Regulations 2006 (S.I. 2006/1031) as amended by the Employment Equality (Age) (Amendment No.2) Regulations 2006 (S.I. 2006/2931).

AGE RELATED REBATE

Annual payments into **Appropriate personal pension schemes** (including **Stakeholder Pension Schemes**) and **Contracted Out Money Purchase** occupational pension schemes, made by HMRC **National Insurance Contributions Office**. These payments are based on a percentage of earnings between the **Lower** and **Upper Earnings Limits** (or, from 6 April 2009, the Upper Accrual Point), and generally increase with the age of the **member** up to a maximum. They are intended to provide benefits broadly equivalent to the **State Second Pension** benefits given up.

Rebates will not apply in respect of employment after 6 April 2012.

*See also **Contracted Out Rebate**.*

ALLOCATED ASSETS

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

*Under the previous Pension Scheme SORP these assets were referred to as **designated assets**.*

*See also **Not Allocated Assets**.*

ALLOWABLE MAXIMUM

See **Earnings Cap**.

ALPHA (α)

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

See also Active Investment Management.

ALTERNATIVE INVESTMENTS

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

It may imply a higher risk.

AMORTISATION

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

ANNUAL ALLOWANCE (AA)

The maximum amount of tax-relievable pensions that can be built up in one tax year. This is expressed as a capital value and the amount is £50,000 a year but the Government will consider options for indexing from 2015/16. Any excess is subject to the **annual allowance charge**.

The relevant statutory provision is s228 FA2004.

ANNUAL ALLOWANCE CHARGE

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

The relevant statutory provisions are s227 and paragraphs 8 – 12 of schedule 34 FA2004.

ANNUAL MANAGEMENT CHARGE (AMC)

An annual charge levied for the management of an invested fund. It is usually expressed as a percentage of the total fund.

ANNUAL REPORT

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

*It will contain the specific information that is required to be made available by trustees in relation to each **scheme year** under the **Disclosure Regulations**. Subject to certain exceptions, this must include a copy of the **audited accounts** and other information specified including an investment report. It will also include a **trustees' report** the **auditor's report**, the **auditor's statement about contributions** and appropriate actuarial information.*

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

ANNUITY

A series of payments, which may be subject to increases, made at stated intervals until a particular event occurs. This event is most commonly the end of a specified period or the death of the person receiving the annuity.

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

ANNUITY CERTAIN

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

ANTI-FORESTALLING REGIME

The tax regime, covering tax years 2009/10 and 2010/11, which prevented high earning individuals (broadly those whose taxable income is more than £130,000 a year) from attempts to avoid the post 6 April 2011 restrictions on pensions tax relief by making additional pension savings during this period.

ANTI FRANKING REQUIREMENTS

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

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

APPROPRIATE ADDITIONS

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

APPROPRIATE PERSONAL PENSION SCHEME (APP)

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

Contracting out through such a scheme will cease on 6 April 2012.

APPROPRIATE PERSONAL PENSION STAKEHOLDER PENSION SCHEME (APPSHP)

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

APPROPRIATE SCHEME

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

Contracting out through such a scheme will cease on 6 April 2012.

APPROPRIATE SCHEME CERTIFICATE

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

ARTICLE 157

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

See also Barber Judgment.

ASSESSMENT DATE

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

ASSESSMENT PERIOD

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

ASSET ALLOCATION STRATEGY

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

ASSET AND LIABILITY MATCHING

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

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

See also LDI.

ASSET AND LIABILITY MODELLING

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

ASSET CLASS

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

ASSETS

Anything tangible or intangible that is capable of being owned or controlled to produce value and that is held to have positive economic value. In **pension schemes** these include items such as investments, debtors and cash.

ASSOCIATED EMPLOYERS

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

ASSOCIATED EMPLOYMENTS

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

The relevant statutory provision is s24 of the Income Tax (Earnings and Pensions) Act 2003.

ASSURANCE ENGAGEMENTS

Engagements which provide an independent and professional opinion on the area reviewed.

*An audit provides assurance over the validity of the **financial statements** and for certain types of **occupational pension scheme** whether contributions have been paid in accordance with the **schedule of contributions** or **payment schedule**.*

ASSURANCE REPORTS ON INTERNAL CONTROLS MADE AVAILABLE TO THIRD PARTIES

See **AAF 01/06**.

ATTAINED AGE METHOD

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

*See also **GN26**.*

ATTRIBUTION ANALYSIS

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

AUDITED ACCOUNTS

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

*See also **Auditor's Report** and **Auditor's Statement about Contributions**.*

AUDITED ACCOUNTS REGULATIONS

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

AUDITING PRACTICES BOARD (APB)

The Auditing Practices Board is responsible for the development of auditing practice in the United Kingdom and Ireland through the development and issues of standards of auditing. It is a part of the **Financial Reporting Council**.

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

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

AUDITOR

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

*See also **independent Auditor**, **Scheme Auditor** and **Statutory Auditor**.*

AUDITOR'S REPORT

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

*Under the **Audited Accounts Regulations**, the **scheme auditor** has to provide a report on a number of matters, including whether the scheme financial statements show a **true and fair view** and contain the information required by those Regulations, as well as reporting on whether the information contained in the **annual report** has any misstatements or material inconsistencies with the financial statements.*

*See also **Independent Auditor**.*

AUDITOR'S STATEMENT ABOUT CONTRIBUTIONS

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

***Practice Note 15** recommends that the statement be made separately from the **Auditor's Report** on the **financial statements** of the scheme.*

*This is also referred to as the **Auditor's Statement on Contributions**.*

AUGMENTATION

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

AUTHORISED EMPLOYER PAYMENTS

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

The relevant statutory provisions are s175-180 EA2004.

AUTHORISED MEMBER PAYMENTS

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

The relevant statutory provisions are s164-171 FA2004.

AUTOMATIC ENROLMENT

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

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

The relevant statutory provisions are PA2008 and related Regulations.

*See also **Registration and Staging**.*

AUTOMATIC RE-ENROLMENT

If any **jobholder** has opted out, an **employer** will have to automatically re-enrol them provided they are still working for the employer. The re-enrolment process occurs about every three years.

*See also **Automatic Enrolment**.*

AVERAGE EARNINGS SCHEME

See **Career Average Scheme**.

BALANCE SHEET

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

*In **pension scheme** financial statements, a **net assets statement** is required rather than a balance sheet, because this does not take account of the liabilities to pay **benefits** after the date of the statement which is dealt with in the **actuarial valuation**.*

BALANCED MANAGEMENT

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

*Trustees may place some constraints on the manager, such as not to invest in property or **venture capital**.*

BAND EARNINGS

See **Upper Band Earnings**.

BARBER JUDGMENT

The judgment of the **European Court of Justice (ECJ)** in the case of Barber v. Guardian Royal Exchange on 17 May 1990, which confirmed that pensions count as pay for the purposes of **Article 157**.

BASIC COMPONENT

See **Basic Pension**.

BASIC PENSION

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

BASIS POINT

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

BECKMANN JUDGMENT

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

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

BENCHMARK

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

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

*See also **Investment Performance Measurement**.*

BENEFICIAL OWNER

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

BENEFICIARY

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

BENEFIT CRYSTALLISATION EVENT (BCE)

A defined event or occurrence that triggers a test of a **member's benefits** against the available **lifetime allowance**.

The relevant statutory provisions are s216 and Schedule 32 FA2004.

BENEFIT STATEMENT

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

BENEFITS

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

BENEFITS IN KIND

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

Also known as P11D benefits.

BETA (β)

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

*See also **Passive Investment Management**.*

BID-OFFER SPREAD

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

BOARD FOR ACTUARIAL STANDARDS (BAS)

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

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

BOND

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

*See also **Coupon**.*

BOOK COST

The total purchase cost at which investments were acquired.

BOOK VALUE

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

BULK TRANSFER

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

***HMRC** must be informed about any such transfer payments.*

BUY BACK

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

BUY IN

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

BUY OUT

The purchase by the **trustees** of an **occupational pension scheme** of an insurance policy in the name of a **member** or other **beneficiary**. This is in lieu of entitlement to **benefits** from the scheme and means that the policy is not an **asset** of the scheme.

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

*See also **Section 32 Policy**.*

BY-ANALOGY SCHEMES

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

CABINET OFFICE STATEMENT OF PRACTICE (COSOP)

These statements prescribe practice to be followed by Government departments.

The Cabinet Office issued the COSOP "Staff Transfers in the Public Sector" in January 2000.

CALL OPTION

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

*See also **Option**.*

CANCELLATION NOTICE

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

CAREER AVERAGE REVALUED EARNINGS SCHEME (CARE)

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

CAREER AVERAGE SCHEME

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

CARRYING VALUE

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

*See also **Book Value**.*

CASH BALANCE ARRANGEMENT

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

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

CASH BASIS

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

CASH EQUIVALENT

The value of **benefits** accrued by a **member** of a **pension scheme**.

*Cash equivalents are used in **cash equivalent transfer values**, and for other purposes, for example when a **pension sharing order** is made.*

The relevant statutory provision is s94 PSA93.

CASH EQUIVALENT TRANSFER VALUE (CETV)

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

*See **Reduced Cash Equivalent Transfer Value**.*

CASH OPTION

*See **Commutation**.*

CAT STANDARDS

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

CERTIFIED AMOUNT

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

CERTIFICATE OF EXISTENCE

A document confirming that a person is still alive.

CERTIFICATE OF TECHNICAL PROVISIONS

A certificate signed by the **scheme actuary** to a **defined benefit scheme** certifying that in the scheme actuary's opinion the calculation of the scheme's technical provisions at the valuation date is made in accordance with regulations.

*The calculation uses a method and assumptions determined by the **trustees** of the scheme in accordance with the regulations. These are set out in the **Statement of Funding Principles**.*

The relevant statutory provisions are s222 PA2004 and the Occupational Pension Schemes (Scheme Funding) Regulations 2005 (SI 2005/3377).

CHINESE WALLS

Separation of activities within financial institutions to prevent confidential and/or price sensitive information from passing from one area to another.

For example, it is normal practice for a financial services institution to separate corporate finance, stockbroking and fund management using Chinese Walls.

CHURNING

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

CLARITY ISA

The clarified International Standards on Auditing (UK and Ireland), commonly known as clarity ISA, are the latest auditing standards to be published. The standards came into effect for audits of accounting periods commencing on or after 15 December 2009.

CLASS ACTION

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

CLEARANCE

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

CLOSED SCHEME

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

*Contributions may or may not continue and **benefits** may or may not be provided for future service to existing members.*

CODES OF PRACTICE

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

COLLATERAL

1. Commonly a borrower's pledge of specific property / **assets** to a lender to secure repayments of a loan.
2. Used as part of a credit enhancement technique to mitigate credit risk associated with derivatives transactions conducted under an **ISDA** Agreement. The difference in the present value of the two sides of a derivative transaction is calculated frequently (typically daily) and the value is posted by the **counterparty** with the lower valued position. This pledged collateral secures a transaction and can be claimed by the solvent counterparty if the other counterparty defaults.

COMBINED DISCRIMINATION

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

The relevant statutory provision is s14 Equality Act 2010.

COMBINED PENSION FORECAST

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

COMMISSION RECAPTURE

An arrangement whereby a broker repays a proportion of commissions received.

*The repayment is usually made to the **pension fund** via a third party, for example a **custodian** or specialist recapture agent.*

COMMON DATA

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

This includes items such as date of birth and National Insurance number.

*See also **Conditional Data**.*

COMMON INVESTMENT FUND (CIF)

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

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

COMMUTATION

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

COMMUTATION FACTORS

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

COMPLIANCE AUDIT

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

COMPLIANCE STATEMENT

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

COMPULSORY PURCHASE ANNUITY (CPA)

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

*See also **Open Market Option**.*

CONCENTRATION OF INVESTMENT

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

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

CONCURRENCY

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

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

*See also **Concurrent Employments**.*

CONCURRENT EMPLOYMENTS

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

CONDITIONAL DATA

A range of data items, additional to **common data**, that the scheme will require, according to the **Pensions Regulator's** record-keeping **guidance**, to administer the scheme correctly.

CONNECTED PERSONS

Connected persons are defined in s993 of Income Tax Act 2007 and include spouses or civil partners, relatives, spouses or civil partners of relatives, **trustees** of a **member's** or a connected person's settlement, and companies controlled by the member either alone or with another connected person.

*Mainly used for **SSAS** and **SIPP**.*

CONTINGENT ANNUITY

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

CONTINGENT ASSET

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

CONTINUATION OPTION

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

CONTINUOUS SERVICE

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

CONSUMER PRICES INDEX (CPI)

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

CONTRACT OUT

The use of a pension scheme which meets certain conditions to provide **benefits (GMPs, protected rights or section 9(2B) rights)** in place of **State Second Pension**. Employees and the sponsoring employers of **contracted out** occupational schemes pay reduced rate NI contributions.

*Depending on the type of scheme, an end of year **age related rebate** payment from **HMRC** is paid directly to the scheme. **Members** of **APP/APPSP** schemes pay full rate NI contributions but receive end of year payments from HMRC paid directly to the scheme.*

*The Government plans to end contracting out by the **Protected Rights** route from 6 April 2012.*

CONTRACTED OUT / CONTRACTED IN

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

*A pension scheme is commonly called contracted in where it is not contracted out: that is, it provides **benefits** in addition to State Second Pension.*

The term 'contracted in' is not used in PSA93 or PA95.

CONTRACTED OUT CONTRIBUTION EARNINGS INFORMATION SERVICE (COCIS)

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

CONTRACTED OUT DEDUCTION

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

CONTRACTED OUT MIXED BENEFIT SCHEME (COMB)

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

CONTRACTED OUT MONEY PURCHASE SCHEME (COMP)

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

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

CONTRACTED OUT MONEY PURCHASE STAKEHOLDER PENSION SCHEME (COMPSHP)

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

CONTRACTED OUT REBATE

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

CONTRACTED OUT SALARY RELATED SCHEME (COSR)

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

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

CONTRACTING OUT CERTIFICATE

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

CONTRIBUTION CHARGE

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

CONTRIBUTION HOLIDAY

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

CONTRIBUTION NOTICE

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

The Regulator can issue a notice under:-

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

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

The relevant statutory provisions are s38 and s38A of PA2004.

*See also **Moral Hazard**.*

CONTRIBUTION SCHEDULE

See **Schedule of Contributions**.

CONTRIBUTIONS EQUIVALENT PREMIUM (CEP)

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

CONTRIBUTORY SCHEME

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

COOLING OFF NOTICE

See **Cancellation Notice**.

CORE / SATELLITE APPROACH

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

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

CORPORATE BONDS

Bonds issued by companies. In practice all bonds other than those issued by governments in their own currency.

CORPORATE GOVERNANCE

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

Most often deemed to be for the benefit of its stakeholders.

*See also **UK Corporate Governance Code**.*

CORPORATE TRUSTEE

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

*See also **Trust Corporation**.*

CORRIDORING

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

COUNTERPARTY

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

In many circumstances, the counterparty in a financial transaction is unknown.

COUNTERPARTY RISK

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

*Procedures such as the posting of **collateral** can reduce the impact of this risk.*

COUPON

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

CREDIT SPREAD

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

CREDIT SUPPORT ANNEX

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

CREST

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

CURRENCY OVERLAY

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

CURRENCY RISK

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

CURRENT ASSETS

Those **assets** which can be realised within one year. These include items such as debtors and cash.

CURRENT LIABILITIES

Those **liabilities** which are due to be paid within one year. These include amounts due to the supplier of goods and services and sums to be paid in respect of **benefits** due to **members**.

CURRENT SERVICE COST

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

CURRENT UNIT METHOD

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

See also GN26.

CURTAILMENT

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

CUSTODY

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

CUSTODIAN

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

See also Custody and Sub Custodian.

CUSTODIAN TRUSTEE

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

See also Trust Corporation.

DEBT ON THE EMPLOYER

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

The relevant statutory provisions are s75 and s75A PA95 (as amended by PA2004) and The Occupational Pension Schemes (Employer Debt) Regulations 2005 (SI 2005/678) as amended.

DECLARATION OF TRUST

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

DEED

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

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

DEED OF ADHERENCE

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

DEED OF APPOINTMENT

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

DEED OF COVENANT

Sometimes used for **deed of adherence**.

DEED OF PARTICIPATION

See **Deed of Adherence**.

DEED POLL

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

DEFAULT OPTION

An option that is selected automatically unless an alternative is specified.

This is commonly used in **defined contribution schemes** in relation to choosing investment funds.

DEFAULT RETIREMENT AGE (DRA)

The default retirement age was introduced by the Employment Equality (Age) Regulations 2006 and allows employers to dismiss employees when they reach 65 without having to justify the dismissal. These provisions and the DRA have been replicated in the Equality Act 2010. The DRA was abolished with effect from 6 April 2011.

DEFERRED ANNUITY

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

DEFERRED MEMBER

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

DEFERRED PENSIONER

See **Deferred Member**.

DEFERRED RETIREMENT

See **Postponed Retirement** and **Late Retirement**.

DEFICIT REDUCTION CONTRIBUTIONS CERTIFICATE

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

*Submission is via **Exchange**.*

DEFINED ACCRUED BENEFITS METHOD

An **accrued benefits funding method** in which the **actuarial liability** is based on the **benefits** that would arise if the scheme were to discontinue at the **valuation date**. The contribution rate calculated is that necessary to cover the cost of benefit payments assuming benefit accrual ceased at the valuation date.

See also GN26.

DEFINED BENEFIT SCHEME

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

DEFINED BENEFIT LUMP SUM DEATH BENEFIT

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

The relevant statutory provision is s168 and Schedule 29 FA2004.

DEFINED CONTRIBUTION

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

DEFINED CONTRIBUTION SCHEME

A scheme providing **benefits** on a **defined contribution** basis.

See also Money Purchase Scheme.

DEFINITIVE TRUST DEED

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

DEPENDANT

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

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

DE-RISKING

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

DERIVATIVE

A financial contract between two parties where the value of the asset involved is derived from something else, such as the value of an underlying asset or an index based on asset prices. Derivatives may include **futures contracts, forward contracts, swaps, and options**.

DESIGNATED ASSETS

See **Allocated Assets**

DESIGNATED SCHEME

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

DETERMINATION

1. A decision by the **Pensions Ombudsman** that is final and binding on all parties, subject only to an appeal on a point of law to, in England and Wales, the High Court, in Scotland, the Court of Session, or in Northern Ireland, the Court of Appeal.
2. The process by which the **Pensions Regulator** decides to use its powers to intervene and remedy any breach of the legislation or problem arising within a work-based **pension scheme**. The Determination is issued by the Pension Regulator's Determination Panel.

DETERMINISTIC VALUATION

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

*See also **Stochastic Valuation and Scheme Funding**.*

DETRIMENTAL MODIFICATION

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

DIRECT DISCRIMINATION

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

The definition is broad enough to cover cases where the less favourable treatment is because of the victim’s association with someone who has that characteristic or because the victim is wrongly thought to have it.

The relevant statutory provision is s13 of the Equality Act 2010.

*See also **Indirect Discrimination**.*

DIRECT INVESTMENT

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

DISABILITY BENEFIT

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

DISABILITY-RELATED DISCRIMINATION

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

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

The relevant statutory provision is s15 of the Equality Act 2010.

DISCLOSURE

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

*See also **Disclosure Regulations**.*

DISCLOSURE REGULATIONS

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

The main regulations are the Occupational Pension Schemes (Disclosure of Information) Regulations 1996 (SI 1996/1655) and the personal pension schemes (Disclosure of Information) Regulations 1987 (SI 1987/1110), as amended by the Occupational, Personal and Stakeholder Pension Schemes (Disclosure of Information) (Amendment) Regulations 2010 (SI 2010/2659)

DISCONTINUANCE

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

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

DISCOUNTING

The process used to determine the amount of money needed at the present time which, when invested at a specified interest rate, will provide a given sum at a specified future date.

*See also **Present Value**.*

DISCRETIONARY INCREASE

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

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

DISCRETIONARY SCHEME

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

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

DISPUTE RESOLUTION PROCEDURE

See **Internal Dispute Resolution Procedure**.

DIVERSIFICATION

The spreading of investment funds among different types of **assets**, markets and geographical areas in order to reduce **risk**.

Diversification is more effective when there is little or no correlation between the change in the value of the various assets when they are exposed to market or economic events.

DIVIDEND

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

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

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

DRAWDOWN FACILITY

See **Income Drawdown**.

DUAL CALCULATION

A **GMP** calculation for any period(s) between 6 April 1990 and 5 April 1997 which treats a male as a female, or vice versa.

*NISPI provide this service for pension schemes to assist in equalising **benefits** between men and women.*

DYNAMIC ASSET ALLOCATION

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

DYNAMISATION / DYNAMISM

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

*See also **Indexation of Pensions**.*

EARLY LEAVER

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

EARLY RETIREMENT

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

The benefit may be reduced because of early payment.

*See also **Ill Health Early Retirement**.*

EARLY RETIREMENT PIVOT AGE

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

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

EARMARKED MONEY PURCHASE SCHEME

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

EARMARKED POLICY

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

EARMARKING

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

See also Pension Sharing Order.

EARNINGS CAP

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

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

EARNINGS FACTOR

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

EARNINGS LIMITS

See **Lower Earnings Limit**, **Upper Earnings Limit** and **Upper Accrual Point**.

ELIGIBLE JOBHOLDER

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

ELIGIBILITY

The conditions which must be met for a person to be a **member** of a **pension scheme** or to receive a particular **benefit**.

These may, for example, relate to length of service, status and type of employment.

EMPLOYEE'S EARNINGS THRESHOLD

From 6 April 2000, the point at which employees begin to pay NI contributions. As at April 2011 it is linked to the single person's tax allowance.

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

EMPLOYEE TRUSTEES

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

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

EMPLOYER

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

*See also **Principal Employer** and **Participating Employer**.*

EMPLOYER COVENANT

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

EMPLOYER FINANCED RETIREMENT BENEFITS SCHEME (EFRBS)

Since **A-Day** all unapproved schemes have been treated as **unregistered pension schemes** and known as EFRBS.

EMPLOYER RELATED INVESTMENT (ERI)

Investment of the **assets** of the scheme in a **participating employer** or associate, for example, shares or other securities, land and property used by the **employer** and loans (§40 PA95). In this context any required payment not made by the employer into the scheme by the due date constitutes an employer related investment.

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

*See also **Restricted Employer Related Investment**.*

EMPLOYER'S AUGMENTATION CONTRIBUTIONS

Contributions which are paid to augment the **benefits** for specified **members**.

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

EMPLOYERS' DEFICIT FUNDING CONTRIBUTIONS

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

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

EMPLOYER'S EARNINGS THRESHOLD

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

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

EMPLOYER'S NORMAL CONTRIBUTIONS

See **Ordinary Annual Contributions**.

EMPLOYMENT BENEFIT TRUST (EBT)

An umbrella vehicle that allows a company to provide deferred remuneration to its employees (and their families) in almost any form it chooses.

A wide range of assets, including property, can be held in these trusts. Also referred to as an employee share ownership plan (ESOP), an employee share trust.

ENDOWMENT POLICY

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

ENHANCED INDEXATION

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

ENHANCED PROTECTION

One of two forms of transitional protection (the other is **primary protection**) for pre **A-Day** rights. This protection is available to any individual with **benefits** accrued at A-Day. It allows the value of pre A-Day benefits to be linked to indexation or movements in future earnings or investment growth.

*The benefits of a **member** with enhanced protection are not subject to the **lifetime allowance charge**, but this is subject to several important conditions.*

The relevant statutory provisions are s263 and Schedule 36 FA2004.

ENHANCED TRANSFER VALUE (ETV)

A payment which is above the value of the underlying **cash equivalent transfer value**, but normally below the full cost of funding the **member's** pension.

*The purpose is to offer an incentive for members to transfer their **benefits** out of a **defined benefit scheme**.*

*See also **Incentive Exercises**.*

ENTRY AGE METHOD

A **funding method** based on prospective **benefits** (rather than **accrued benefits**) in which the contribution rate calculated for future service is the rate payable over the expected future membership of a defined group of new entrants, which would provide for their total expected benefits.

See also GN26.

EQUITY

The capital of a company belonging to the ordinary shareholders who have voting rights allowing them to influence the management of the company.

The term equities is commonly used for ordinary shares.

EQUIVALENT PENSION BENEFIT (EPB)

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

EQUITY RISK PREMIUM

The excess return that an individual stock or the overall stock market provides over a **risk-free** rate.

This excess return compensates investors for taking on the relatively higher risk of the equity market.

ESCALATION

A system whereby pensions in payment and / or **preserved benefits** are automatically increased at regular intervals and at a defined percentage rate.

*The percentage may be restricted to the increase in a specified index. For example the **Retail Prices Index (RPI)** or the **Consumer Prices Index (CPI)**.*

*See also **Indexation of Pensions**.*

ETHICAL STANDARDS (APB)

Standards of ethical conduct which apply to the **auditor** of **financial statements**.

EUROPEAN COURT OF JUSTICE (ECJ)

Also known as “the Court of Justice of the European Communities”, which hears cases and preliminary references under European Community law.

The ECJ is based in Luxembourg.

EX-ANTE

A forward looking measure or estimate (literally, before the event).

EXCESS BENEFITS / CONTRIBUTIONS (contracting out)

Benefits provided by / contributions to a **COMP, COMPSHP** or an **appropriate scheme** which are over and above the **protected rights** benefits / contributions.

*These benefits / contributions are not subject to the rules applying to **protected rights** benefits / contributions.*

EXCHANGE TRADED FUNDS (ETFs)

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

EXECUTION ONLY

Where an agent executes his client’s instructions without giving any advice.

Known in the US as discount brokerage.

EXCHANGE

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

*Some of the information is also used by the **Pension Protection Fund**.*

*Exchange can be used to register a new scheme, submit a scheme return, submit details from an **actuarial valuation**, report a breach or **notifiable** event or advise that a scheme has wound up.*

EXCHANGE OF LETTERS

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

EXEMPT UNIT TRUST

A **unit trust** specifically designed for pension funds and charities, which enjoys the same tax advantages as a directly invested pension fund's **assets**.

It is normally managed by an investment organisation.

EXPECTED RATE OF RETURN ON ASSETS

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

EX-POST

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

EXPRESSION OF WISH

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

FAIR VALUE

The price for which an **asset** could be exchanged or a **liability** settled at arm's length between knowledgeable parties, other than in a forced sale.

*IFRS require some **assets**, **liabilities** and equity instruments to be measured at fair value.*

FAS 87 & FAS 88

FAS 87 is the US Financial Accounting Standards Board's statement which deals with accounting for **pension costs** in **employers'** accounts.

FAS 88 applies to employers' accounts when a scheme is wound up or if **benefits** are settled on termination of employment.

These have both been amended by Statements of Financial Accounting Standards numbers 132, 132R and 158.

FAS 157

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

*It has established a three level hierarchy for measuring **fair value**. With level one assets being the easiest to value and level three the hardest to value.*

FINAL AVERAGE EARNINGS

See **Final Pensionable Earnings**.

FINAL PAY SCHEME

See **Final Salary Scheme**.

FINAL PENSIONABLE EARNINGS / PAY / SALARY

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

FINAL SALARY SCHEME

A **defined benefit scheme** where the **benefit** is related to the amount that the **member** is earning at the time of retirement, death or leaving **pensionable service** and to the period of pensionable service.

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

FINAL SALARY UNDERPIN

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

*See also **Final Salary Scheme**.*

FINANCIAL ASSISTANCE SCHEME (FAS)

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

The Board of the Pension Protection Fund was appointed as the FAS Scheme manager from July 2009.

FINANCIAL OMBUDSMAN SERVICE (FOS)

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

FINANCIAL REPORTING COUNCIL (FRC)

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

FINANCIAL REPORTING STANDARDS (FRS)

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

FINANCIAL SERVICES AUTHORITY (FSA)

The independent non-governmental body, given statutory powers by the Financial Services and Markets Act 2000.

It regulates the financial services industry in the UK. It has a wide range of rule-making, investigatory and enforcement powers in order to meet four statutory objectives summarised in one aim: to promote efficient, orderly and fair markets and to help retail consumers achieve a fair deal.

As at the date of publication, it has been proposed that the FSA be split into the Prudential Regulatory Authority and the Financial Conduct Authority.

FINANCIAL SERVICES COMPENSATION SCHEME (FSCS)

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

It is the UK's statutory fund of last resort for consumers of authorised financial services firms. The FSCS is able to pay compensation if a firm is unable, or likely to be unable, to pay valid claims against it.

FINANCIAL STATEMENTS

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

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

FINANCIAL SUPPORT DIRECTION

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

The employer of the scheme in question must be or have been a service company or insufficiently resourced in accordance with s43(3) of PA2004 and the Regulator must consider it “reasonable” to issue the direction, having regard to such matters as are relevant including, where relevant the matters set out in s47(7).

FIXED RATE REVALUATION

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

The rate is reviewed periodically.

FLAT RATE SCHEME

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

FLEXIBLE RETIREMENT

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

This facility was introduced in FA2004.

FORFEITURE

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

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

FORWARD CONTRACT

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

FRAG 21/94

This guidance has been superseded by **AAF 01/06**.

FRANKING

See **Anti Franking Requirements**

FRAUD COMPENSATION FUND

A replacement for the Pensions Compensation Board in operation from 1 September 2005.

*Payments can be made from the Fund in cases where the **assets** of a scheme have been reduced since 6 April 1997 as a result of an offence involving dishonesty, including intent to defraud.*

FRAUD COMPENSATION LEVY

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

FREE COVER

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

FREE STANDING ADDITIONAL VOLUNTARY CONTRIBUTIONS (FSAVCs)

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

FREEZING ORDER

An order that has the effect that **benefits** cease to accrue and the scheme cannot be wound up.

*The **Pensions Regulator** can issue an order when it is considering whether to wind up a **defined benefit scheme**. It must be satisfied that it is necessary for member protection and that there is an immediate risk to the interests of the members or the assets of the scheme. It will normally last for three months but can be extended for up to six months by the Pensions Regulator.*

FROZEN BENEFIT

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

FROZEN SCHEME

See **Paid Up Scheme**.

FRS 17 - RETIREMENT BENEFITS

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

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

FULLY INSURED SCHEME

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

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

FUND ACCOUNT

A **financial statement** included in a scheme's annual accounts which gives details of the scheme's dealings with **members** and the net return on the scheme's investments during the **scheme year**.

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

FUNDAMENTAL ANALYSIS

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

FUNDED UNAPPROVED RETIREMENT BENEFITS SCHEME (FURBS)

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

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

*See also **Employer Financed Retirement Benefit Scheme (EFRBS)**.*

FUNDING

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

FUNDING LEVEL

The relationship at a specified date between the value of a scheme's **assets** and its **actuarial liability**. This is normally expressed as a percentage.

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

FUNDING METHOD

An approach used by the **actuary** in an **actuarial valuation**. Funding methods may be based on **accrued benefits** or, less commonly, prospective **benefits**. The appropriate method depends on the purpose of the valuation. The method or methods used in a particular case should be adequately described in the **actuarial valuation**.

FUTURES CONTRACT

A transaction in which two parties agree to the sale or purchase of an asset at a specified future date at a price which is fixed at the time the contract is effected.

Exchange traded futures contracts have standard terms, and margin payments are required.

GEARING

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

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

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

The canon of accounting methods, including **accounting standards**, which together constitute best practice in respect to the form and content of financial statements, and the accounting policies and disclosures adopted for the preparation of financial information.

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

GILTS

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

GLOBAL CUSTODIAN

A **custodian** with responsibility for custody of a number of **assets** of different classes with different fund managers.

*Contrasts with multi-manager portfolios each having a separate **custodian**.*

GLOBAL INVESTMENT PERFORMANCE STANDARDS (GIPS)

A set of global ethical principles established by the Chartered Financial Analyst Institute that provide guidance to investment firms on how to calculate and report their investment results to prospective clients. The standards allow **pension funds** and other institutional investors to make comparisons between investment managers and are intended to ensure that their investment managers compete for their business on the basis of 'fair representation and full disclosure' of their investment performance.

GLOBAL TACTICAL ASSET ALLOCATION (GTAA)

An investment strategy that attempts to exploit short term market inefficiencies by establishing positions in a range of markets with the objective of profiting from relative movements across those markets.

GN26

One of the **Guidance Notes** published by the Institute and Faculty of Actuaries (and adopted by the **BAS** in 2007). It sets out descriptions of the **funding methods** that are in most common use.

It was made obsolete in April 2011 and had not been replaced at the date of publication.

*See also **Technical Actuarial Standards**.*

GRADED SCALE SCHEME

See **Salary Grade Scheme**.

GRADUATED PENSION SCHEME

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

GRADUATED RETIREMENT BENEFIT

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

GROUP PERSONAL PENSION (GPP)

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

GUARANTEED ANNUITY

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

GUARANTEED ANNUITY OPTION

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

GUARANTEED MINIMUM PENSION (GMP)

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

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

GUIDANCE

1. Notes published by the **Pensions Regulator** to aid compliance with legislation and underlying regulations.
2. Notes published by **HMRC** describing the requirements for **registered pension schemes**.

GUIDANCE NOTES (GNs)

Generally used to refer to the guidance notes published by the Institute and Faculty of Actuaries, most of which were adopted by the Board for Actuarial Standards in 2007 as practice standards. At the date of publication, they are in the process of being replaced by **Technical Actuarial Standards** and some professional (rather than technical) standards issued by the Actuarial Profession.

HEDGE FUND

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

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

HEDGING

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

HM REVENUE & CUSTOMS (HMRC)

Formed in 2005, following the merger of the Inland Revenue and HM Customs and Excise.

*It has the responsibility for the registration of **pension schemes** and the taxation of contributions and **benefits**.*

HMRC PENSION SCHEME SERVICES

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

HOME RESPONSIBILITIES PROTECTION (HRP)

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

HYBRID SCHEME

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

ILL HEALTH EARLY RETIREMENT

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

IMMEDIATE ANNUITY

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

IMPLEMENTATION PERIOD

In relation to a **pension credit**, it is the period of four months during which the **pension scheme** must implement the **pension sharing order**.

IMPROVEMENT NOTICE

A notice issued by the **Pensions Regulator** to a person who has breached legislative requirements.

The notice directs the person to take (or refrain from taking) certain actions, and must contain information relating to the breach in question and the steps taken to remedy the breach together with timescales for compliance. Civil penalties may apply if the improvement notice is not complied with.

INCENTIVE EXERCISE

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

This is usually accompanied by some form of financial incentive.

*See also **Enhanced Transfer Values**.*

INCOME DRAWDOWN

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

INCOME WITHDRAWAL

See **Income Drawdown**.

INDEPENDENT AUDITOR

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

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

*See also **Scheme Auditor**.*

INDEPENDENT TRUSTEE

An individual or corporate body with no direct or indirect involvement with the **pension scheme**, **employer** or **members**, other than performing the duties of a **trustee**.

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

INDEXATION OF INVESTMENTS

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

*See also **Passive Investment Management** and **Tracker Fund**.*

INDEXATION OF PENSIONS

Where pensions in payment and/or preserved **benefits** are automatically increased at regular intervals by reference to a specified index of prices or earnings.

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

INDIRECT DISCRIMINATION

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

The relevant statutory provision is s19 of Equality Act 2010.

See also Direct Discrimination.

INDIVIDUAL ARRANGEMENT

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

INDIVIDUAL PENSION ACCOUNT (IPA)

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

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

INDUCEMENT

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

*See also **Opting out, Qualifying Pension Scheme and Automatic Enrolment.***

INDUSTRY WIDE SCHEME

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

INFLATION PROOFING

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

INLAND REVENUE

See **HMRC**

INSURED SCHEME

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

INTEREST COST

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

INTERIM TRUST DEED

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

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

INTERNAL CONTROLS

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

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

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

INTERNAL DISPUTE RESOLUTION PROCEDURE (IDRP)

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

*See also **Dispute Resolution Procedure**.*

INTERNATIONAL ACCOUNTING STANDARD (IAS) 19

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

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

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

INTERNATIONAL STANDARDS ON AUDITING (ISA)

Standards issued by the International Federation of Accountants (IFAC) through the International Auditing and Assurance Standards Board (IAASB).

There are two sets of ISA, the ISA issued by the IAASB and the ISA (UK and Ireland) issued by the Accounting Practices Board (APB). The ISA (UK and Ireland) was derived from the original ISA and enhanced and so is more comprehensive than the original ISA.

INTERNATIONAL SWAPS AND DERIVATIVES ASSOCIATION (ISDA) AGREEMENT

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

*See also **Credit Support Annex**.*

INVESTMENT GOVERNANCE GROUP (IGG)

The group was set up, following a review, to implement a new industry-led framework for the application of the **Myners principles** and improved pension scheme governance.

INVESTMENT MANAGEMENT AGREEMENT (IMA)

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

INVESTMENT MANAGEMENT ASSOCIATION (IMA)

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

INVESTMENT MANAGER

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

INVESTMENT PERFORMANCE MEASUREMENT

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

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

INVESTMENT REGULATED PENSION SCHEME (IRPS)

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

INVESTMENT REGULATIONS

Regulations issued under s40 PA95 which impose restrictions on the amount of resources a pension scheme may invest in employer-related investments (ERI). They also exempt some schemes from the requirement to obtain a **SIP**.

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

INVESTMENT STRATEGY

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

*See also **Statement of Investment Principles**.*

INVESTMENT REPORT

A report on the investments of a fund, their deployment and changes, often with background commentary.

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

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

INVESTMENT TRUST

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

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

JOBHOLDER

A **worker** in Great Britain who:

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

*See also **Automatic Enrolment**.*

KEY FEATURES DOCUMENT

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

LATER EARNINGS ADDITION

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

LATE RETIREMENT

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

The benefit may be increased because of late payment.

LATE RETIREMENT PIVOT AGE

The age set in **scheme rules** (or otherwise determined), above which a **member** can take a pension with actuarial enhancement.

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

LEVERAGE

See **Gearing**.

LEVY

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

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

LIABILITIES

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

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

*See also **Current Liabilities**.*

LIABILITY DRIVEN INVESTMENT (LDI)

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

*See also **Asset and Liability Matching**.*

LIFE ASSURANCE SCHEME

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

LIFETIME ALLOWANCE (LTA)

Overall maximum capital amount of tax relieviable pension savings that any one individual can accumulate in all pension arrangements.

The relevant statutory provision is s218 FA2004.

*See also **Personal Lifetime Allowance**.*

LIFETIME ALLOWANCE CHARGE

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

The relevant statutory provisions are s214 to s226 and schedule 34 FA2004.

LIFESTYLING

An **asset allocation strategy** used in **defined contribution schemes** whereby a **member's** investments are adjusted depending on age and term to retirement.

*Typically **assets** are switched from **equities** into **bonds** and cash as retirement approaches.*

LIABILITY DRIVEN INVESTMENT (LDI)

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

LIMITED PRICE INDEXATION (LPI)

The requirement under PA95 to increase pensions in payment under a defined **benefit scheme** in respect of service after 5 April 1997.

LINKED QUALIFYING SERVICE

Defined in s179(1) PSA93, it is relevant where a scheme has accepted a transfer payment. It denotes **qualifying service** under a transferring scheme which has been added to qualifying service in the scheme receiving the transfer payment.

LOCAL GOVERNMENT PENSION SCHEME (LGPS)

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

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

*The LGPS primarily provides **benefits** for Local Government staff.*

LONG POSITION

When an investor actually holds a security or derivative.

*See also **short position**.*

LONG SERVICE BENEFIT

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

LONG TERM DISABILITY INSURANCE

See **Permanent Health Insurance**.

LONGEVITY HEDGE

The purchase of an investment to remove longevity risk.

*The main way of hedging **longevity risk**, other than by buying annuities, is to purchase a **longevity swap**.*

LONGEVITY RISK

The **risk** of living longer than expected.

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

LONGEVITY SWAP

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

*There are two main types of longevity swap: a bespoke longevity swap, based on the membership profile of the scheme, and an index-based longevity swap. They both involve the scheme making regular payments based on expected mortality in exchange for receipts based on actual mortality. The pension scheme will pay the additional pension payroll if the underlying **members** die sooner than expected; the counterparty will pay the additional pension payroll if the underlying members live longer than expected.*

LOW EARNINGS THRESHOLD (LET)

A defined amount between the **lower earnings limit** and the **upper earnings limit**.

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

LOWER EARNINGS LIMIT (LEL)

The minimum amount that must be earned in a pay period to qualify for a Basic Pension.

Up to 5 April 1999, the limit on which employer NI contributions were based. Up to 5 April 2000, the limit on which employee NI contributions were based.

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

LUMP SUM

See also **Pension Commencement Lump Sum**.

MANAGED FUND

See **Pooled Investment Vehicle**.

MARKET LEVEL ADJUSTMENT

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

*See also **Market Value Adjustment**.*

MARKET VALUATION

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

MARKET VALUE

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

*See also **Fair Value**.*

MARKET VALUE ADJUSTMENT (MVA)

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

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

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

MARKETS IN FINANCIAL INSTRUMENTS DIRECTIVE (MiFID)

An EU Directive which came into force from 1 November 2007 for all European Member States which replaced the existing EU Investment Services Directive.

It aims to harmonise financial markets across the EU to create a consistent approach to the regulation of financial markets.

*In the UK, the **FSA** has approached the adoption of MiFID through a process of consultation on areas such as best execution, conflicts of interest and senior management arrangements, amongst others.*

MARK-TO-MARKET

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

MATCHING

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

*See also **Accruals Concept***

MATERNITY EQUALITY RULE

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

The relevant statutory provision is s75 of the Equality Act 2010 and replaces the previous provisions on “unfair maternity provisions” in paragraph 5 of Schedule 5 to the Social Security Act 1989 and replicates aspects of Regulations 9 and 18A of the Maternity and Parental Leave etc Regulations 1999.

MATURE SCHEME

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

MEMBER

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

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

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

MEMBER NOMINATED DIRECTOR (MND)

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

MEMBER NOMINATED TRUSTEE (MNT)

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

MEMBERSHIP RECONCILIATION

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

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

MEMBER'S NORMAL CONTRIBUTIONS

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

MIGRANT MEMBER RELIEF

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

The relevant statutory provisions are s243 and schedule 33 FA2004.

MINIMUM APPROPRIATE PERSONAL PENSION

See **Rebate Only Personal Pension**.

MINIMUM PAYMENTS

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

*See also **Age Related Rebate**.*

MNT REGULATIONS

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

MODIFICATION ORDER

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

MODIFIED PREMIUM VALUE

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

MONEY PURCHASE

See **Defined Contribution**.

MONEY PURCHASE SCHEME

Alternative name for a scheme that provides **defined contribution** benefits.

MONEY PURCHASE UNDERPIN

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

MONEY WEIGHTED RETURN

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

*To be contrasted with **time weighted return**.*

MORAL HAZARD PROVISIONS

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

*See also **Contribution Notice** and **Financial Support Direction**.*

MORTALITY ASSUMPTIONS

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

*See also **Longevity Risk**.*

MULTIPLE BENEFIT SCHEME

See **Hybrid Scheme** (definition 1).

MULTI-EMPLOYER SCHEME

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

MYNERS PRINCIPLES

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

*See also **Investment Governance Group** and **Corporate Governance**.*

MYNERS REVIEW

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

*In 2007 the Government asked the NAPF to assess the extent to which **trustees** were applying the principles. In March 2008 the Government consulted on proposals to update the Myners principles and establish a new industry-led framework, which resulted in the formation of the **Investment Governance Group**.*

NATIONAL EMPLOYMENT SAVINGS TRUST (NEST)

NEST is a **qualifying scheme** under the Government's Workplace Pension Reforms, which can be used by employers to meet the **automatic enrolment** requirements.

See also NEST Corporation.

NATIONAL INSURANCE CONTRIBUTIONS OFFICE (NICO)

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

NATIONAL INSURANCE SERVICES TO PENSIONS INDUSTRY (NISPI)

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

NEST CORPORATION

NEST Corporation is the trustee body responsible for overseeing the **National Employment Savings Trust (NEST)**.

See also Automatic Enrolment.

NET ASSETS STATEMENT

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

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

NET BOOK VALUE (NBV)

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

See also Book Value.

NOMINATION

See **Expression of Wish**.

NON CONTRIBUTORY SCHEME

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

NON DISCRIMINATION RULE

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

The relevant statutory provision is s61 of Equality Act 2010.

NORMAL CONTRIBUTIONS

See **Ordinary Annual Contributions** and **Member’s Normal Contributions**.

NORMAL MINIMUM PENSION AGE (NMPA)

The earliest date at which pensions and lump sums may normally be taken as **authorised payments** under a **registered pension scheme**.

From 6 April 2010 the NMPA of 50 rose to 55.

NORMAL PENSION AGE (NPA)

For preservation purposes under s180 of the Pension Schemes Act 1993 this is the earliest age at which a **member** can receive full pension **benefits**. It is not necessarily the same as **normal pension date** or **normal retirement age**.

NORMAL PENSION DATE (NPD)

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

NORMAL RETIREMENT AGE (NRA)

Age of a **member** at the **normal retirement date** specified in the **scheme rules**.

NORMAL RETIREMENT DATE (NRD)

The date (usually the date of reaching a particular age) specified in the **rules** of an **occupational pension scheme** at which a **member** would normally retire.

NOT ALLOCATED ASSETS

Under the **Pension Scheme SORP**, those **assets** of an **occupational pension scheme** providing **defined contribution** benefits which have not been specifically allocated for the provision of benefits to or in respect of named **members**. Under the previous Pension Scheme SORP these assets were referred to as **undesignated assets**.

*Where assets are held on a pooled basis by the investment manager and the administrator keeps records of their allocation to members, such investments are **allocated assets**.*

NOTIFIABLE EVENTS

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

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

OBJECTIVE JUSTIFICATION

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

OCCUPATIONAL PENSION SCHEME

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

OPEN ENDED INVESTMENT COMPANY (OEIC)

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

OPEN MARKET OPTION (OMO)

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

OPTING IN

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

*See also **Opting out** and **Automatic Enrolment**.*

OPTING OUT

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

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

*See also **Opting In**.*

OPTION

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

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

ORDINARY ANNUAL CONTRIBUTION

Denotes the annual contributions payable to a **registered occupational pension scheme** by the **employer** on a common basis e.g. a fixed amount or fixed percentage of payroll.

OVER THE COUNTER (OTC)

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

The exact meaning may vary between different parts of the world financial market.

OVERRIDING LEGISLATION

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

OVERSEAS PENSION SCHEME

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

*See also **Qualifying Recognised Overseas Pension Scheme**.*

PAID UP BENEFIT

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

PAID UP PENSION (PUP)

See **Paid Up Benefit**.

PAID UP SCHEME

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

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

PARTICIPATING EMPLOYER

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

PASSIVE INVESTMENT MANAGEMENT

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

*See also **Tracker Fund**.*

PASSPORT

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

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

PAST SERVICE

Pensionable service before a specified date.

PAST SERVICE BENEFIT

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

PAST SERVICE COST

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

PAST SERVICE RESERVE

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

PAY AS YOU GO (PAYG)

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

The State Pension Scheme is pay as you go.

PAYMENT SCHEDULE

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

PENSION COMMENCEMENT LUMP SUM (PCLS)

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

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

PENSION CREDIT

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

PENSION DEBIT

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

PENSION FRACTION

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

PENSION FUND

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

PENSION GUARANTEE

An arrangement whereby on the early death of a **pensioner**, the **pension scheme** pays a further sum or sums to meet a guaranteed total.

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

PENSION INCREASE

An increase in a pension in payment.

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

PENSION INPUT AMOUNT

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

The relevant statutory provision is s238 FA2004.

PENSION INPUT PERIOD (PIP)

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

The relevant statutory provision is s238 FA2004.

PENSION PROTECTION FUND (PPF)

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

The PPF was established under PA2004 and became operational from 6 April 2005.

PENSION PROTECTION FUND COMPENSATION

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

- Are generally compensated to the level of 100% of their current pension in payment
- but only pension in respect of service from 6 April 1997 will increase; and
- this increase is in line with an inflation index to a maximum of 2.5% per annum.

For other members:

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

PENSION PROTECTION LEVY

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

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

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

PENSION SCHEME

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

PENSION SCHEME SORP

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

*SORP 1 'Pension Scheme Accounts' was issued in 1986. It was updated and issued by PRAG in September 1996 as 'Financial Reports of Pension Schemes'. Revised editions, reflecting changes in regulations, **accounting standards** and practice, were issued in November 2002 and May 2007.*

PENSION SCHEMES REGISTRY

The register of all UK **pension schemes** maintained by the **Pensions Regulator**.

PENSION SHARING ORDER

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

PENSION TAX RELIEF AT SOURCE (PTRAS)

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

PENSION TRACING SERVICE

A service allowing **members** of **pension schemes** to trace lost pension schemes.

PENSIONABLE EMPLOYMENT

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

PENSIONABLE SERVICE

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

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

PENSIONABLE AGE

Used in legislation (Schedule IV PA95) to denote **State Pensionable Age**.

PENSIONABLE EARNINGS

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

*One or more elements of earnings (e.g. overtime) may be excluded, and there may be a **State Pension Offset**.*

PENSIONER TRUSTEE

Until 6 April 2006, a **small self administered scheme** was required to have a pensioner trustee among its trustees. The pensioner trustee had to be approved by **HMRC** and was responsible for certain administrative duties, mainly relating to the scheme's dealings with HMRC. FA2004 abolished the role and duties of the pensioner trustee, but in practice many small schemes continue to have a professional trustee performing a broadly similar role.

PENSIONER

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

PENSIONS OMBUDSMAN (PO)

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

PENSIONS REGULATOR (TPR)

The UK regulator of work based **pension schemes**. The Pensions Acts of 2004 and 2008 give the Pensions Regulator a set of specific objectives:

- to protect the **benefits** of **members** of work based pension schemes;
- to promote good administration of work based pension schemes;
- to reduce the risk of situations arising that may lead to claims for compensation from the **Pension Protection Fund** (PPF); and
- to maximise employer compliance with employer duties (including the requirement to automatically enrol eligible employees into a qualifying pension provision with a minimum contribution) and with certain employment safeguards.

PERMITTED INVESTMENTS

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

PERPETUITIES, RULE AGAINST

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

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

PERSONAL LIFETIME ALLOWANCE (PLA)

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

PERSONAL PENSION SCHEME (PPS)

A contract-based scheme provided on a **defined contribution** basis. A personal pension scheme can be a **stakeholder pension scheme** if the necessary conditions are met.

*See also **Self Invested Personal Pension** and **Appropriate Scheme**.*

PHASED ANNUITY

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

PHASING

The minimum contribution levels for a **defined contribution scheme** for **automatic enrolment** are not being introduced in full from October 2012. Instead they are being phased in over three stages, with the final phase being when contributions have reached the final minimum levels in October 2017:

PIVOTAL AGE

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

POOLED INVESTMENT VEHICLE

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

*Investments in **hedge funds**, **private equity funds**, infrastructure, property and commodities are often made through pooled investment vehicles.*

*Compare with **segregated fund**.*

POSTPONED RETIREMENT

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

PPF OMBUDSMAN

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

*Since October 2010 this role has been merged with the **Pensions Ombudsman**.*

PRACTICE NOTE 15 (Audit) (PN15)

A **practice note** originally issued in 1997 by the **Auditing Practices Board (APB)** on the application of auditing standards issued by the APB to the audit of **occupational pension schemes** in the UK. Revised practice notes were issued in November 2004, March 2007 and January 2011.

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

PRE SCHEME SERVICE

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

PREMIUM VALUE METHOD

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

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

*See paragraph 2.97 of the **Pension Scheme SORP**.*

PRESENT VALUE

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

*See also **Discounting**.*

PRESERVATION

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

PRESERVED BENEFIT

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

PRIMARY PROTECTION

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

PRIMARY THRESHOLD

See **Employee's Earnings Threshold**

PRINCIPAL EMPLOYER

Commonly used in scheme documentation for the particular employer in which is vested special powers or duties in relation to such matters as the appointment of the **trustees**, amendments and **winding up**. Usually this will be the **employer** which established the scheme or its successor in business. Also known as **sponsoring employer**.

PRIORITY LIABILITIES

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

PRIORITY RULE

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

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

PRIVATE EQUITY

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

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

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

PROGRAMME TRADE

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

PROJECTED UNIT METHOD

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

See also GN26.

PROSPECTIVE MEMBER

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

*Given a wider meaning in the **Disclosure Regulations**.*

PROSPECTIVE SERVICE

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

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

PROTECTED LIABILITIES

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

*See also **Pension Protection Fund**.*

PROTECTED MEMBER (LGPS)

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

PROTECTED MODIFICATION

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

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

PROTECTED RIGHTS

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

PROTECTED RIGHTS ANNUITY

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

PRUDENCE

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

The level of prudence is not defined.

PUBLIC SECTOR PENSION SCHEME

A **pension scheme** primarily providing **benefits** for public sector workers, where the rules are set up by law and the benefits are guaranteed by the Government.

PURCHASED LIFE ANNUITY (PLA)

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

PUT OPTION

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

*See also **Option**.*

QUALIFYING EARNINGS

This will be the band of gross annual earnings on which contributions for the purposes of **automatic enrolment** are calculated. This will be from £7,475 up to and including £33,540. Qualifying earnings are a worker's salary, wages, overtime, bonuses and commission, as well as statutory sick, maternity, paternity or adoption pay.

The relevant statutory provision is s13 of PA2008.

QUALIFYING EARNINGS FACTOR

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

QUALIFYING INSOLVENCY EVENT

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

The relevant statutory provisions are s121 of PA2004 and Regulation 5 of SI 2005(2153) - PPF (Entry Rules) Regulations.

QUALIFYING INVESTMENT FUND (QIF)

A specialist Irish Investment Fund, commonly used for regulated alternative investments. They can be established as an Investment Company or Unit Trust.

*The main advantage of a QIF is the removal of the Irish Financial Regulator's general conditions relating to investment policy and borrowing, enabling the structure to be used for a wide variety of investment purposes. These may include **Alternative Investments**, including **Hedge Funds**, **Private Equity Funds** and **Infrastructure Funds**.*

QUALIFYING PERIOD

See **Waiting Period**.

QUALIFYING RECOGNISED OVERSEAS PENSION SCHEME (QROPS)

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

See also the list of QROPS on the HMRC website.

QUALIFYING SCHEME

A pension scheme that meets certain minimum standards prescribed in PA2008 for the purposes of **automatic enrolment**. There are different quality standards depending on the type of scheme.

QUALIFYING SERVICE

Defined in s71(7) PSA93 to denote the period of employment to be taken into account to entitle the **member** to **short service benefit**.

The current condition is for at least two years' qualifying service.

*See also **Linked Qualifying Service**.*

QUALIFYING YEAR

A year in which an individual has paid, or is treated as having paid, National Insurance contributions.

QUANTITATIVE INVESTMENT ANALYSIS

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

Considerations may include the value of assets, the cost of capital and projected and historical sales.

QUOTED INVESTMENTS

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

RATE OF RETURN

The percentage change in the value of an investment over a specified period, taking into account both the income from it and the change in its market value.

Often expressed as an equivalent annual rate.

*See also **Time Weighted Return**, **Total Return** and **Money Weighted Return**.*

RATING AGENCY

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

REAL ESTATE INVESTMENT TRUST (REIT)

A publicly quoted security that permits investment in property through a typical **investment trust**. As such, the trust is exempt from corporation tax and capital gains tax and can therefore be seen to be the equivalent of direct investment in property.

*The REIT share price can move to a premium or discount against the underlying net asset value, as with any **investment trust**.*

*See also **Pooled Investment Vehicle**.*

REAL RATE OF RETURN

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

The measure of inflation used should be specified.

REBATE

See **Contracted Out Rebate**.

REBATE ONLY PERSONAL PENSION (ROPP)

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

RECOGNISED OVERSEAS PENSION SCHEME

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

*See also **Recognised Transfer**.*

RECOGNISED TRANSFER

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

RECOVERY PLAN

A plan drawn up by the **trustees** setting out how any funding deficit (on the **statutory funding objective**) revealed by an **actuarial valuation** for a **defined benefit scheme** will be met, and over what period.

*Meeting the deficit will generally involve additional contributions from the **employer** which will also be shown on the **schedule of contributions**.*

REDUCED CASH EQUIVALENT TRANSFER VALUE

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

REFERENCE SCHEME

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

REFERENCE SCHEME TEST

The test required in order to **contract out** after 5 April 1997 on a **COSR** basis that the **benefits** provided by a COSR are at least as good as or better than those which would be provided under the **reference scheme**.

*Confirmation that the COSR meet the requirements for contracting out is given in the reference scheme test certificate, which is normally provided by the **scheme actuary**.*

REGISTER / REGISTRY

See **Pension Schemes Registry**.

REGISTERED PENSION SCHEME

A scheme is a registered pension scheme, either by:

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

REGISTERED PENSION SCHEME MANUAL (RPSM)

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

The RPSM can be accessed on the HMRC website.

REGISTRATION

The requirement for employers to register with the **Pensions Regulator** on completion of the **automatic enrolment** process.

REINSTATEMENT

The acceptance into an **occupational pension scheme** of a **member** who has previously declined to join, or has opted out.

*Reinstatement can be solely for future service **benefits** or can also include **past service benefits**.*

REINSURANCE

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

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

RELEVANT EARMARKED SCHEME

An **occupational pension scheme**:

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

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

RELATED PARTY TRANSACTIONS

Those financial transactions with related parties which **FRS 8** requires to be disclosed in an entity's **financial statements**.

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

The SORP provides guidance on the types of transactions that fall into the above categories.

Material transactions and relationships with related parties should be disclosed, irrespective of whether a price is charged.

RELEVANT EMPLOYEES

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

REPORTING ACCOUNTANT

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

RESTORATION ORDER

An order which may be made by the **Pensions Regulator** in respect of a transaction involving scheme **assets** (excluding **defined contribution schemes**) if the employer has become insolvent or the transaction is one at an undervalue entered into with an individual on or after 27 April 2004.

The purpose of such an order is to restore the position to what it would have been had the transaction not been entered into.

RESTRICTED EMPLOYER RELATED INVESTMENT (ERI)

The restrictions under the **Investment Regulations** on **employer related investment** in **occupational pension schemes**. Subject to certain exemptions not more than 5% of the current market value of scheme assets, and the prohibition of employer related loans or guarantees

ERI restrictions not only apply to investments in the employer, but also to investments in parties associated to or connected with the employer, and in property used by the employer or its associates.

Amending regulations in 2010 have resulted in some exemptions from ERI being removed.

RETAIL DISTRIBUTION REVIEW (RDR)

Launched by the **Financial Standards Authority** in June 2006 in order to improve public confidence in the retail investment market. It sought to:

- improve the clarity with which firms describe their services to consumers;
- address the potential for adviser remuneration to distort consumer outcomes; and
- increase the professional standards of investment advisers.

It is intended that the revised framework will have been implemented in full by 31 December 2012.

RETIREMENT ANNUITY POLICY

An annuity contract between an insurance company or friendly society and a self employed individual or a person in non pensionable employment, which was established before 1 July 1988 and approved under Chapter III Part XIV ICTA88.

*These arrangements preceded **personal pension schemes**.*

REVALUATION

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

REVALUED EARNINGS

The index linking of earnings for calculating **benefits**.

REVALUED EARNINGS SCHEME

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

REVERSIONARY ANNUITY

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

RISK

The likelihood of a return or experience that is different from that expected and the possible extent of the difference.

Downside risk is the likelihood of a loss or a return less than expected from an investment. Mortality risk is the likelihood of actual experience being worse than expected.

*Also used to indicate the variability of investment returns or the volatility of different **assets**.*

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

*See also **Risk Register**.*

RISK APPETITE

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

RISK BASED LEVY

The risk based element to the **Pension Protection Levy**.

RISK BENEFITS

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

Risk benefits are often insured.

RISK BUDGET

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

RISK-FREE ASSET

An investment with no chance of default, generally considered as one with the backing of a stable government.

*For example, a UK Government **bond** (gilt-edged security).*

RISK-FREE RATE

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

RISK MANAGEMENT

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

*See also **Active Risk**.*

RISK PREMIUM

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

RISK REGISTER

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

A risk register should be regularly updated and reviewed.

RULE OF 85

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

RULES

See **Scheme Rules**.

SAFEGUARDED RIGHTS

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

SALARY GRADE SCHEME

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

*Also known as a **graded scale scheme**.*

SALARY RELATED SCHEME

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

SALARY SACRIFICE

An agreement between the **employer** and employee whereby the employee forgoes part of his / her future earnings in return for a corresponding contribution by the employer to a **pension scheme**.

SCHEDULE 3 ORDERS

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

Formerly known as section 52A orders.

SCHEDULE OF CONTRIBUTIONS

A schedule specifying the contribution rates and payment dates, normally agreed between the **employer** and the **trustees** and certified by the **scheme actuary**, as being adequate to satisfy the **statutory funding objective**.

*Required for **defined benefit schemes** subject to s227 PA2004 and the Occupational Pension Schemes (Scheme Funding) Regulations 2005 (SI 2005/3377).*

SCHEME ACTUARY

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

*The scheme actuary's role includes conducting an **actuarial valuation** and advising on drawing up the **statement of funding principles** and the choice of appropriate assumptions.*

SCHEME ADMINISTRATION REGULATIONS

Regulations issued under PA95 providing for the appointment of professional advisers and the requirement to maintain books and records.

The main regulation is the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (SI 1996/1715).

SCHEME ADMINISTRATOR

See definition 1 of **Administrator**.

SCHEME AUDITOR

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

SCHEME BASED LEVY

The scheme based element to the **Pension Protection Levy**.

SCHEME CHARGEABLE PAYMENT

See Unauthorised Payments.

SCHEME FUNDING REGULATIONS

Regulations, primarily issued under PA2004, requiring **pension schemes** to hold sufficient and appropriate **assets** to cover the scheme's **technical provisions**. Other requirements are that the scheme maintain a statement of their policy for securing that the **statutory funding objective** is met; provisions that a scheme adopt a **recovery plan** where indicated by the **actuarial valuation**, and provisions that the **trustee** maintain a **schedule of contributions**.

The main regulation is the Occupational Pension Schemes (Scheme Funding) Regulations 2005 (SI 2005/3377).

SCHEME FUNDING VALUATION

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

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

The relevant statutory provisions are s224 PA2004 and the Occupational Pension Schemes (Scheme Funding) Regulations 2005 (SI 2005/3377).

SCHEME LIABILITIES

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

SCHEME RETURN

Information submitted to the **Pensions Regulator** by schemes that it will use to:

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

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

*Schemes with five or more **members** must complete an annual scheme return and submit it through **Exchange**.*

SCHEME RULES

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

SCHEME SPECIFIC FUNDING

The scheme funding regime outlined in Part 3 of PA2004, that requires the adoption of a funding target (the **technical provisions**) specific to the circumstances of the scheme.

See **Scheme Funding Valuation**.

SCHEME SANCTION CHARGE

The charge payable by the administrator if the scheme has made one or more **scheme chargeable payments**.

The level of the charge is 40%.

*See also **Unauthorised Payments**.*

SCHEME YEAR

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

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

SECONDARY THRESHOLD

See **Employer's Earnings Threshold**

SECTION 9(2B) RIGHTS

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

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

SECTION 32 POLICY

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

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

SECTION 32A POLICY

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

Introduced by PA95.

SECTION 53 SCHEME

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

SECTION 67

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

SECTION 70

The section of PA2004 which places a duty on the **trustee**, the scheme **administrator**, the **employer** and the professional advisers to the scheme (including **scheme actuary** and **scheme auditor**), to consider reporting directly to the **Pensions Regulator** breaches of law which affect a **pension scheme**.

See also Whistle Blowing.

SECTION 75 DEBT

See **Debt on the Employer**.

SECTION 109 ORDERS

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

Formerly known as section 37A orders.

SECTION 120 NOTICE

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

SECTION 143 VALUATION

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

SECTION 148 ORDERS

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

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

SECTION 179 VALUATION

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

eligible **pension scheme**.

SECURITIES LENDING

The transfer of securities (such as shares or **bonds**) to a third party (the borrower), in return for remuneration. The borrower will give the lender **collateral** in the form of shares, bonds or cash.

The borrower pays the lender a fee for the loan and is contractually obliged to return the securities on demand within the standard market settlement period.

SEGREGATED FUND

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

*Compare with **pooled investment vehicle**.*

SELF-ADMINISTERED SCHEME

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

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

SELF-CERTIFICATION

The process for **employers** to certify in advance that their existing **defined contribution scheme** meets the minimum quality requirements for the purpose of being a **qualifying scheme** for **automatic enrolment**.

SELF INVESTED PERSONAL PENSION (SIPP)

A **personal pension scheme** under which the member has more freedom than usual to choose and manage investments.

*SIPPs are subject to the same investment restrictions as other **registered pension schemes**.*

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

SELF INVESTMENT

The investment of the **assets** of an **occupational pension scheme** in **employer related investments**.

*See also **Restricted Employer Related Investment**.*

*HMRC imposes separate restrictions on self investment by **SSAs**. Requirements as to disclosure and reporting of self investment are laid down by PA95.*

SENSITIVITY ANALYSIS

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

SERIOUS ILL HEALTH LUMP SUM

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

The relevant statutory provision is s166 and Schedule 29 FA2004.

SERVICE ORGANISATION

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

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

SETTLEMENT

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

SEX EQUALITY RULE

The requirement that every **occupational pension scheme** shall have a sex equality rule read into it, so that men and women are treated as favourably as comparable **members** of the opposite sex in relation to both the terms on which they are permitted to join the pension scheme, and to the terms on which they are treated once they have become pension scheme members.

The relevant statutory provision is s67 of Equality Act 2010 and replaces equivalent equal treatment provisions in s62 of PA95.

SHAREABLE RIGHTS

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

SHORT POSITION

When an investor has sold stock that he or she does not own in anticipation of being able to buy it back later at a lower price. In order to do this, the investor first borrows, for a fee, the stock from another investor who does own it.

“Going short” means to take a short position.

See also *long position*.

SHORT SERVICE BENEFIT (SSB)

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

SHORT SERVICE REFUND LUMP SUM

The term for a refund of **member** contributions on leaving a **registered pension scheme**.

SINGLE PREMIUM METHOD

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

SMALL SELF ADMINISTERED SCHEME (SSAS)

A trust based **occupational pension scheme** which allows the **members** to direct the investments. A SSAS must be registered to obtain tax-exempt status.

Prior to A-Day a SSAS was defined by HMRC as being a scheme that was self-administered with fewer than 12 members, with at least one member connected with another member, or with a trustee or an employer in relation to the scheme. FA2004 introduced the new definition.

Since A-Day they have been available to those not in a limited company.

SOCIALLY RESPONSIBLE INVESTMENT (SRI)

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

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

SOFT COMMISSION

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

SOLVENCY VALUATION

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

*See also **Buy out***

SPECIAL ANNUAL ALLOWANCE

It forms part of the **anti-forestalling regime** that the Government implemented in advance of the planned restriction of higher-rate tax relief for pension saving from 6 April 2011. The special annual allowance has been set at £20,000 in most cases, although for certain irregular saving the allowance rises to £30,000 a year.

SPECIAL ANNUAL ALLOWANCE CHARGE

A tax charge on pension saving by high earners levied on saving that exceeds the **special annual allowance** in the 2009/10 or 2010/11 tax years. The charge reduces the level of tax relief afforded to high earners to basic-rate relief. Accordingly, for 2009/10 it was set at 20%. For 2010/11, it applies at 20% in relation to pension saving relieved at the 40% higher-rate of income tax and 30% in relation to saving relieved at the 50% additional rate.

*See also **Anti-Forestalling Regime**.*

SPECIAL CONTRIBUTIONS

Used by **HMRC** to define any contribution to a **retirement benefits scheme** by an **employer** which is not an **ordinary annual contribution**.

*Prior to the 2007 revision of the SORP this term was also used in pension scheme accounts. The SORP replaced it with the terms **employers' augmentation contributions** and **employers' deficit funding contributions**.*

SPECIAL PURPOSE VEHICLE

A legal entity, commonly a limited company but which may be a limited partnership, usually created to isolate an entity from a specific **risk**.

*They are often created through the transfer of **assets** which are to be used for a specific purpose, for example the generation of an income stream for the benefit of a pension scheme, or as security against a scheme deficit.*

SPECIALIST MANAGEMENT

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

SPONSOR COVENANT

See **Employer Covenant**.

SPONSORING EMPLOYER

See **Principal Employer**.

STAGING

The **employer** duties for the purposes of **automatic enrolment** will be staged over four years from October 2012 to 2016, starting with the largest to medium-sized employers, followed by small and micro employers. The size of an employer will be based on PAYE data. Subject to certain conditions, employers will be able to automatically enrol their employees in advance of their **staging date** but not before October 2012.

STAGING DATE

The first date from which an employer must automatically enrol all their **eligible jobholders** into a **qualifying scheme**. The duties will be introduced by the size of employer with the new duties applying to the largest to medium-sized employers up to July 2014, followed by small and micro employers from August 2014 to February 2016. New PAYE schemes will be staged in at the end of the staging period from March 2016.

*See also **Staging and Automatic Enrolment**.*

STAKEHOLDER PENSION SCHEME

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

*Since October 2001 employers who did not come within one of the employer exemptions, such as offering membership of an **occupational pension scheme**, had to offer their **relevant employees** access to a stakeholder pension scheme. Provisions will change with effect from October 2012.*

STANDARD LIFETIME ALLOWANCE

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

*See also **Lifetime Allowance**.*

STATE EARNINGS RELATED PENSION SCHEME (SERPS)

The **additional pension** provisions of the State Pension Scheme, replaced by **State Second Pension** since 6 April 2002.

SERPS is based on earnings on which standard rate NI contributions have been paid.

STATE PENSION AGE (SPA)

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

Also referred to as State Pensionable Age. PA95 raised the SPA for women to 65, to bring it in line with men by November 2018. The SPA will rise for men and women from 65 to 66 in April 2020.

STATE PENSION DEFERRAL

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

STATE PENSION FORECAST

A forecast of State Pension based on NI Contributions to date, and projected future contributions, which is provided for individuals by **The Pension Service**.

STATE PENSION OFFSET

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

STATE SCHEME PREMIUM

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

Most State Scheme Premiums were abolished by PA95 from 6 April 1997.

STATE SECOND PENSION (S2P)

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

STATEMENT OF AUDITING STANDARDS (SAS)

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

STATEMENT OF FUNDING PRINCIPLES (SFP)

A written statement setting out for a **defined benefit scheme** the **trustees'** policy for meeting the **statutory funding objective**. It records the decisions as to the basis for calculating the scheme's technical provisions and the period within which any deficit is to be remedied.

*See also **Scheme Funding Valuation**.*

STATEMENT OF INVESTMENT PRINCIPLES (SIP)

A written statement of the principles governing decisions about investment for an **occupational pension scheme**, which **trustees** are required to prepare and maintain. Trustees must have regard to advice from a suitably qualified person and consult with the **employer**.

See also s35 PA95.

STATEMENT OF RECOMMENDED PRACTICE (SORP)

Recommendations on best accounting practice for specialised industries or sectors. They supplement **accounting standards** and other legal and regulatory requirements pertaining to that industry.

*They are issued by the industry or sector body recognised for that purpose by the **Accounting Standards Board**.*

*See also **Pension Scheme SORP**.*

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES (STRGL)

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

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

STATUTORY AUDITOR

An **auditor** required by law to report on the financial statements of an entity.

STATUTORY DISCHARGE

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

STATUTORY FUNDING OBJECTIVE (SFO)

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

*See also **Scheme Funding Valuation**.*

STATUTORY MONEY PURCHASE ILLUSTRATIONS (SMPis)

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

STATUTORY SCHEME

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

STOCHASTIC VALUATION

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

*See also **Deterministic Valuation**.*

STOCK LENDING

See **Securities Lending**.

STOCK SELECTION

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

*Stock normally refers to **equity**, but may refer to other financial instruments such as **bonds**.*

SUB CUSTODIAN

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

SUBSISTING RIGHTS

In relation to a **member** means:

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

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

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

SUMMARY FUNDING STATEMENT (SFS)

A summary of the scheme's funding position.

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

SUMMARY OF CONTRIBUTIONS

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

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

*See also **Auditor's Statement about Contributions**.*

SURPLUS

See **Actuarial Surplus**.

SURRENDER

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

SUSPENSION ORDER

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

*See also **Disqualification Order** and **Prohibition Order**.*

SWAP

A type of **derivative** where two parties agree to exchange **assets** or cashflows over an agreed period.

*Swaps can be based on **equity** indices, **bonds** of different maturities, baskets of securities, individual securities, inflation rates or interest rates. As with other derivatives, swaps can be used to gain a desired exposure without trading in the underlying assets.*

SWAP OVERLAY

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

TACTICAL ASSET ALLOCATION (TAA)

A short term deviation from the long term **asset allocation strategy** to reflect an **investment manager’s** views on markets.

TARGETED MONEY PURCHASE SCHEME

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

TAX RELIEF AT SOURCE

See **Pension Tax Relief at Source**.

TECHNICAL ACTUARIAL STANDARDS (TASs)

The standards set by the **BAS** replacing the technical **Guidance Notes** issued by the Institute and Faculty of Actuaries.

They are divided into Generic and Specific TASs. The Generic TASs are Reporting, Modelling and Data and the Specific TASs include Pensions and Insurance.

TECHNICAL PROVISIONS

Under the scheme funding provisions of PA2004, the amount required in an actuarial calculation to make provision for a **defined benefit scheme's** accrued or past service **liabilities**.

See also Certificate of Technical Provisions.

TERM ASSURANCE POLICY

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

Sometimes referred to as a term insurance policy.

TERMINATION BENEFITS

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

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

THE PENSION SERVICE

Is part of the Department for Work and Pensions (**DWP**) and is responsible for administering and paying the State Pension.

THE PENSIONS ADVISORY SERVICE (TPAS)

An independent voluntary organisation that is grant aided by the **DWP**. TPAS provides information and guidance to members of the public covering State, company, personal and stakeholder pension schemes. It also helps members of the public with problems, complaints or disputes with their occupational or private pension arrangements.

TIME WEIGHTED RETURN

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

*To be contrasted with **money weighted return**.*

TOTAL EARNINGS SCHEME

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

TOTAL EXPENSE RATIO (TER)

This shows the total cost of charges levied against a fund and is usually expressed as a percentage of the fund.

TOTAL RETURN

A combination of the change in value of the portfolio and the investment income from the portfolio. This is expressed as a percentage of the value of the fund at the start of the period.

TRACKER FUND

A fund which seeks to match investment performance to a particular stock market index.

*See also **Indexation of Investments**.*

TRANSFER CLUB

A group of **employers** and **occupational pension schemes** that have agreed to a common basis for **transfer payments**. The transfer club covers mainly public service schemes.

TRANSFER PAYMENT

A payment made from a **pension scheme** to another pension scheme, or to purchase a **buy out** policy, in lieu of **benefits** which have accrued to the **member** or members concerned, to enable the receiving arrangement to provide alternative benefits.

The transfer payment may be made in accordance with the **scheme rules** or in exercise of a member's statutory rights under PSA93.

*See also **Cash Equivalent**.*

TRANSFER VALUE (TV)

The amount of the **transfer payment**.

TRANSFER VALUE ANALYSIS (TVAS)

An investigation into whether it is likely to be advantageous to transfer **benefits** to another pension arrangement based on stated **actuarial assumptions**.

A TVAS report is generally used to compare the benefits available under a current **defined benefit scheme** and a proposed **defined contribution scheme** where it is proposed that a **transfer value** will be paid from the former into the latter. The report will produce a figure known as the critical yield. This is the rate of annual growth required from the transfer value (net of charges) for the defined contribution scheme to achieve equivalent benefits to those the defined benefit scheme would have provided. Other areas like tax free cash amounts and death benefits will also be compared.

TRANSITION MANAGER

A manager whose specific role is to control the transfer of **assets** between **investment managers** / **custodians** whilst minimising direct and indirect costs.

TRANSITIONAL PROTECTION

The facility to preserve certain rights accrued pre **A-Day**. Under FA2011 transitional rules relating to **pension input periods** (PIP) will apply from 14 October 2011 where the PIP started before then but will end in the 2011/12 tax year.

*See also **Primary Protection** and **Enhanced Protection**.*

TRIGGER POINTS

Situations in relation to **technical provisions** or a **recovery plan** that may concern the **Pensions Regulator**, such as a recovery plan of more than 10 years.

TRIVIAL COMMUTATION LUMP SUM

A tax free lump sum **benefit** that may be paid to an individual (who has reached the age of 60 but has not reached age 75) where the total value of rights from all **registered pension schemes** is less than 1% of the **lifetime allowance**. Payment is subject to certain conditions.

The relevant statutory provision is s166 and Schedule 29 FA2004.

TRUE AND FAIR VIEW

Published accounts of companies and certain other entities are required to show a true and fair view. This is usually achieved by complying with the relevant **accounting standards**, but professional judgment is also required.

*According to the **Audited Accounts Regulations** and the **Pension Scheme SORP**, the accounts of an **occupational pension scheme** should present a true and fair view.*

TRUST

A legal concept whereby **assets** are held by one or more persons (the **trustees**) for the benefit of others (the **beneficiaries**) for the purposes specified by the trust instrument. The trustees may also be beneficiaries.

TRUST CORPORATION

A company empowered under the Public Trustee Act 1906 to act as **custodian trustee** and which is expected to provide professional expertise in managing trusts.

*See also **Corporate Trustee**.*

TRUST DEED

A legal document, executed in the form of a deed, which establishes, regulates or amends a **trust**.

*See also **Interim Trust Deed** and **Definitive Trust Deed**.*

TRUST INSTRUMENT

A **trust deed** or other document or series of documents, by which a **trust** is created and the provisions governing the trust are prescribed.

TRUSTEE

An individual or company appointed to carry out the purposes of a **trust** in accordance with the provisions of the **trust instrument** and general principles of trust law.

TRUSTEE DIRECTOR

A director of a **trustee corporation**.

TRUSTEE TOOLKIT

An online learning system (www.trusteetoolkit.com) developed by the **Pensions Regulator** to help **trustees** meet the requirements for **trustee knowledge and understanding** in relation to **occupational pension schemes**.

TRUSTEES' KNOWLEDGE AND UNDERSTANDING (TKU)

A requirement under PA2004 that **trustees** of an **occupational pension scheme** must have appropriate knowledge and understanding of the law relating to pensions and **trusts**, the principles relating to the funding of **occupational pension schemes** and the investment of **assets**.

The relevant statutory provisions are s247 to s249 PA2004.

TRUSTEES' REPORT

A report by the **trustees** describing various aspects of an **occupational pension scheme**. It may form part of the **annual report**.

UK CORPORATE GOVERNANCE CODE

A code of **corporate governance** principles for UK companies. The UK Corporate Governance Code was issued in June 2010 to replace the Combined Code. The Code sets out standards of good practice in relation to board leadership and effectiveness, remuneration, accountability and relations with shareholders. Whilst the Code is not a rigid set of rules, the Listing Rules (rules for companies listed on the London Stock Exchange) require companies to apply the main principles and report to shareholders how they have done so, or explain why they have not.

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

UK STEWARDSHIP CODE

A code setting out good practice on engagement between institutional investors and investee companies. The UK Stewardship Code was published in July 2010. Its purpose is to enhance the quality of engagement between institutional investors and companies to help improve long-term returns to shareholders and the efficient exercise of governance responsibilities.

The Code is seen as complimentary to the **UK Corporate Governance Code** for listed companies and should be adopted on a 'comply or explain' basis.

UNAUTHORISED EMPLOYER PAYMENT

A payment made by a **registered pension scheme** to an **employer** that is not an **authorised employer payment** under the FA2004 or is treated by **HMRC** as such a payment.

UNAUTHORISED MEMBER PAYMENT

A payment made by a **registered pension scheme** to a **member** that is not an **authorised member payment** under the FA2004 or is treated by **HMRC** as such a payment.

UNAUTHORISED PAYMENT

Any **unauthorised member payment** or **unauthorised employer payment**.

*See also **Authorised Payment Charge**, **Authorised Member Payment** and **Authorised Employer Payment**.*

UNAUTHORISED PAYMENTS CHARGE

A tax charge that arises when a **registered pension scheme** makes an **unauthorised payment**.

The relevant statutory provision is s208 FA2004.

UNAUTHORISED PAYMENTS SURCHARGE

A tax charge which arises when a **registered pension scheme** makes total **unauthorised payments** that exceed a set limit in a specified period of not more than twelve months.

The relevant statutory provision is s209 FA2004.

UNCRYSTALLISED FUNDS

Funds held in respect of a **member** that have not been used to provide that **member** with a **benefit**.

*In the case of a **cash balance** arrangement it is the funds that would be available if the member decided to draw the benefits.*

UNDERFUNDING

Where a pension arrangement has **assets** less than those required to meet its **liabilities**.

See also Actuarial Deficiency.

UNDERWRITING

1. The analysis of the **risk** inherent in providing an insurance policy. It involves an investigation of the circumstances surrounding the subject to be insured. The policy may be written on special terms or insurance may be refused, if the risk is deemed to be higher than average.
2. The practice by which flotations of **equity** shares on the stock exchange are sometimes underwritten by financial institutions. They agree to purchase the shares, at a pre-determined price, if the shares are not all sold on the market, receiving a fee for doing so.

UNDESIGNATED ASSETS

See **Not Allocated Assets**.

UNFUNDED SCHEME

A scheme where **assets** are not accumulated in advance of the **benefits** being paid.

See also Pay As You Go.

UNFUNDED UNAPPROVED RETIREMENT BENEFITS SCHEME (UURBS)

An unfunded **occupational pension scheme**, not designed to be a **registered pension scheme**.

See also Employer Financed Retirement Benefits Scheme and Unfunded Scheme.

UNISEX ANNUITY RATES

Annuity rates which are the same for men and women.

UNISTATUS ANNUITY RATES

Annuity rates which are the same irrespective of gender, marital status and the existence of **dependants**.

UNIT LINKED POLICY

An insurance policy under which premiums paid by the policyholder purchase units. The price of the units fluctuates according to the value of the underlying investments.

UNITISED FUND

A pooled fund which has been divided into units.

See also Pooled Investment Vehicles.

UNITISED WITH PROFITS

A **with profits policy** under which premiums paid by policyholders purchase units. The value of the policy may be increased by the addition of bonuses or bonus units.

See also Unit Linked Policy.

UNQUOTED INVESTMENTS

Investments which are dealt in the market but are not subject to any listing requirements.

UNREGISTERED PENSION SCHEME

A retirement **benefits** scheme that is not a **registered pension scheme**.

UPPER ACCRUAL POINT

The maximum earnings on which **State Second Pension** and **contracted-out rebates** are based.

Prior to 6 April 2009 the UEL was used for this purpose.

UPPER BAND EARNINGS

Earnings between the **lower earnings limit** (LEL) and **upper accrual point** (UAP).

UPPER EARNINGS LIMIT (UEL)

The maximum earnings on which full rate NI contributions are payable by employees.

See also UAP.

VALUATION BALANCE SHEET

A comparison of the value of the **assets** with the **actuarial liability** showing the elements of these amounts in the form of a **balance sheet**, with an amount for **actuarial surplus** or **actuarial deficiency** as a balancing item.

*The results of an **actuarial valuation** may be presented in other ways.*

VALUATION BASIS

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

VALUATION DATE

The effective date of the **actuarial valuation**.

VALUATION METHOD

See **Funding Method**.

VALUATION SUMMARY

A summary of an **actuarial valuation** that must be sent to the **Pensions Regulator**, together with the **recovery plan** details.

*Submission is via **Exchange**.*

VENTURE CAPITAL

The term used to describe a subset of **private equity**, covering the seed to expansion stages of investment.

VESTED RIGHTS

The **benefits** to which a **member** is already entitled.

VOLATILITY

The frequency and magnitude of price changes of investments.

WAITING PERIOD

A period of service specified in the **scheme rules** which an employee must serve before being entitled to join an **occupational pension scheme** or to receive a particular **benefit**.

In some schemes the waiting period before being entitled to join may automatically count as

*pensionable service. Not to be confused with **qualifying service**.*

WHISTLE BLOWING

The statutory duty imposed on **trustees, scheme administrators, employers** and professional advisers under s70 PA2004 (also referred to as “Reporting breaches of the law”). A report must be made in writing to the **Pensions Regulator**, as soon as reasonably practicable, of any breach of legislation relating to the scheme’s administration which could be materially significant to the exercise of any of the **Pensions Regulator’s** functions.

WIDOW’S/WIDOWER’S GUARANTEED MINIMUM PENSION (WGMP)

The minimum pension which a salary related **occupational pension scheme** must provide for the surviving spouse or civil partner of a **member** in respect of **contracted out** contributions paid between April 1978 and April 1997, as one of the conditions of **contracting out**.

WINDING UP

The process of terminating an **occupational pension scheme** (or less commonly a **personal pension scheme**), usually by applying the **assets** to the purchase of **immediate annuities** and **deferred annuities** for the beneficiaries, or by transferring the assets and liabilities to another pension scheme, in accordance with the scheme documentation or statute (s74 PA95).

There are statutory provisions to determine when winding up commences for statutory purposes. For schemes which commenced wind-up before 6 April 2005 see Regulation 2, the Occupational Pension Schemes (Winding Up) Regulations 1996 (SI 1996/3126), or wind-up after 6 April 2005 see The Occupational Pension Schemes (Winding up etc) Regulations 2005 (SI 2005/706).

*See also **Priority Rule**.*

WITH PROFITS POLICY

An insurance policy under which a share of the **surplus** disclosed by an **actuarial valuation** of the insurance company’s life and pensions business is payable as an addition to the guaranteed **benefits** or in reduction of future premiums.

WITHDRAWAL ARRANGEMENT

This sets out proposals for the payment of a modified debt usually to permit the cessation **employer** to pay a lesser amount on exit from a **defined benefit** multi-employer **occupational pension scheme** than the full section 75 debt.

*It is a legally binding document setting out payment between the cessation employer, the guarantor and the **trustees**, which is approved by the **Pensions Regulator**. Comprehensive guidance is set out on the Pensions Regulator's website.*

WITHHOLDING TAX

Tax deducted from overseas investment income, which can normally be claimed back.

WHOLLY INSURED SCHEME

See **Insured Scheme**.

WORKER

In the context of automatic enrolment, an employee or a person who has contracted to provide services to an **employer**.

*See also **Jobholder**.*

YIELD

A measure of the annual income earned on an investment, which is normally expressed as a percentage of its market price.

YIELD CURVE

A graphical representation of the relationship between the **yields** of **bonds** over different maturity periods.

An inverted yield curve indicates that the yield on long dated bonds is lower than that on bonds of shorter maturity, which is thought to be against established market principles.

YIELD GAP

The difference in yield between different **asset classes**; the most frequently quoted yield gap is that between **gilts** and **equities**.

APPENDIX**ABBREVIATIONS IN COMMON USE**

(Terms in **bold typeface** are defined in the text)

AA	Annual Allowance
AADB	Accountancy and Actuarial Discipline Board
AAF	Audit and Assurance Faculty of ICAEW
ABI	Association of British Insurers
ACA	Association of Consulting Actuaries
ACCA	Association of Chartered Certified Accountants
ACT	Association of Corporate Treasurers
ACT	Advance Corporation Tax
AGM	Annual General Meeting
AIFA	Association of Independent Financial Advisers
AMPS	Association of Member Directed Pension Schemes
APB	Auditing Practices Board
APC	Auditing Practices Committee
APL	Association of Pension Lawyers
APP	Appropriate Personal Pension
APPSHP	Appropriate Personal Pension Stakeholder Pension Scheme
APSS	Audit and Pension Scheme Services
ASB	Accounting Standards Board
ASCON	Appropriate Scheme Contracted Out Number
AVCs	Additional Voluntary Contributions
BAS	Board for Actuarial Standards
BCE	Benefit Crystallisation Event
BIBA	British Insurance Brokers Association
CA	Certified Amount
CA	Companies Act
CARE	Career Average Revalued Earnings Scheme
CBI	Confederation of British Industry
CEP	Contributions Equivalent Premium
CETV	Cash Equivalent Transfer Value
CGT	Capital Gains Tax
CIF	Common Investment Fund
CII	Chartered Insurance Institute

CIMPS	Contracted In Money Purchase Scheme
CMI	Continuous Mortality Investigation
COCIS	Contracted Out Contribution / Earnings Information Service
COEG	Contracted Out Employments Group
COMBS	Contracted Out Mixed Benefit Scheme
COMP	Contracted Out Money Purchase Scheme
COMPSPH	Contracted Out Money Purchase Stakeholder Pension Scheme
COSOP	Cabinet Office Statement of Practice
COSR	Contracted Out Salary Related Scheme
CPA	Compulsory Purchase Annuity
CPI	Consumer Prices Index
CT	Corporation Tax
DB	Defined Benefit
DC	Defined Contribution
DCC	Double Century Club
DIS	Death In Service
DRA	Default Retirement Age
DWP	Department for Work and Pensions
EBT	Employment Benefit Trust
ECJ	European Court of Justice
ECON	Employer's Contracting Out Number
ED	Exposure Draft
EFRB	European Federation for Retirement Provision
EFRBS	Employer Financed Retirement Benefit Scheme
EIOPA	European Insurance and Occupational Pensions Authority
EOC	Equal Opportunities Commission
EPB	Equivalent Pension Benefit
ERF	Early Retirement Factor
ERI	Employer Related Investment
ETF	Exchange Traded Fund
ETV	Enhanced Transfer Value
EU	European Union
FA	Finance Act
FAS	Financial Accounting Standard; Financial Assistance Scheme
FOS	Financial Ombudsman Service
FRAG	Financial Reporting & Accounting Group
FRC	Financial Reporting Council
FRED	Financial Reporting Exposure Draft

FRS	Financial Reporting Standard
FSA	Financial Services Authority
FSAVCs	Free Standing Additional Voluntary Contributions
FSCS	Financial Services Compensation Scheme
FSSC	Financial Services Skills Council
FURBS	Funded Unapproved Retirement Benefits Scheme
GAAP	Generally Accepted Accounting Principles
GAD	Government Actuary's Department
GDP	Gross Domestic Product
GIP	Group Income Protection
GMP	Guaranteed Minimum Pension
GN	Guidance Note
GIPS	Global Investment Performance Standards
GPP	Group Personal Pension
GTAA	Global Tactical Asset Allocation
HMRC	Her Majesty's Revenue and Customs
HMSO	Her Majesty's Stationery Office
HRP	Home Responsibilities Protection
IAASB	International Auditing and Assurance Standards
IAS	International Accounting Standard
ICAEW	Institute of Chartered Accountants in England & Wales
ICAS	Institute of Chartered Accountants of Scotland
ICTA	Income and Corporation Taxes Act
IDRP	Internal Dispute Resolution Procedure
IEBA	International Employee Benefits Association
IFA	Independent Financial Adviser
IFAC	International Federation of Accountants
IFS	Institute of Financial Services
IGG	Investment Governance Group
IHT	Inheritance Tax
IIPM	Irish Institute of Pension Managers
IMA	Investment Management Association; Investment Management Agreement
IPA	Individual Pension Account
IPP	Institute of Payroll Professionals
IFRS	International Financial Reporting Standards
IRPS	Investment Regulated Pension Scheme
ISA	International Standard on Auditing

ISDA	International Swaps and Derivatives Association
ITT	Invitation to Tender
JWG	Occupational Pension Schemes Joint Working Group
LDI	Liability Driven Investment
LEL	Lower Earnings Limit
LET	Lower Earnings Threshold
LGPS	Local Government Pension Scheme
LPI	Limited Price Indexation
LPR	Legal Personal Representative
LRF	Late Retirement Factor
LTA	Lifetime Allowance
LTD	Long Term Disability
MiFID	Markets in Financial Instruments Directive
MIG	Minimum Income Guarantee
MIR	Minimum Income Requirement
MND	Member Nominated Director
MNT	Member Nominated Trustee
MVA	Market Value Adjustment
NAE	National Average Earnings
NAPF	National Association of Pension Funds
NBV	Net Book Value
NEST	National Employment Savings Trust
NI	National Insurance
NIC	National Insurance Contributions
NICO	National Insurance Contributions Office
NINO	National Insurance Number
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
OEIC	Open Ended Investment Company
OMO	Open Market Option
ONS	Office of National Statistics
OTC	Over the Counter
PA	Pensions Act

PAYE	Pay As You Earn
PAYG	Pay As You Go
PCLS	Pension Commencement Lump Sum
PCSPS	Principal Civil Service Pension Scheme
PHI	Permanent Health Insurance
PIP	Pension Input Period
PLA	Purchased Life Annuity, Personal Lifetime Allowance
PLRC	Pensions Law Review Committee
PMI	The Pensions Management Institute
PN	Practice Notes
PO	Pensions Ombudsman
POB	Professional Oversight Board (of the FRC)
PPCC	Personal Pension Contributions Certificate
PPF	Pension Protection Fund
PPI	Pensions Policy Institute
PPS	Personal Pension Scheme
PRAG	Pensions Research Accountants Group
PRP	Protected Rights Premium
PSA	Pension Schemes Act
PTRAS	Pension Tax Relief At Source
PUP	Paid Up Pension
QIF	Qualifying Investment Fund
QROPS	Qualifying Recognised Overseas Pension Scheme
RAP	Retirement Annuity Policy (or Premium)
REIT	Real Estate Investment Trust
ROPP	Rebate Only Personal Pension
RPI	Retail Prices Index
RPSM	Registered Pension Scheme Manual
RDR	Retail Distribution Review
RSPA	Raising Standards of Pensions Administration
RSTE	Raising Standards of Trustee Education
S2P	State Second Pension
SAS	Self Administered Scheme
SASs	Statement of Auditing Standards
SCON	Scheme Contracted Out Number
SDCS	Simplified Defined Contribution Scheme
SEPC	Self Employed Premium Certificate
SERPS	State Earnings Related Pension Scheme

SFO	Statutory Funding Objective
SFP	Statement of Funding Principles
SFS	Summary Funding Statement
SI	Statutory Instrument
SII	Securities and Investment Institute
SIP	Statement of Investment Principles
SIPP	Self Invested Personal Pension
SMPIs	Statutory Money Purchase Illustrations
SORP	Statement of Recommended Practice
SPA	State Pension Age
SPC	Society of Pension Consultants
SRI	Socially Responsible Investment
SSA	Social Security Act
SSAP	Statement of Standard Accounting Practice
SSAS	Small Self Administered Scheme
SSB	Short Service Benefit
SSP	Statutory Sick Pay
SSPA	Social Security Pensions Act
STRGL	Statement of Total Recognised Gains and Losses
TAA	Tactical Asset Allocation
TAS	Technical Actuarial Standard
TCN	Third Country National
TER	Total Expense Ratio
TKU	Trustee Knowledge and Understanding
TPA	Third Party Administrator
TPAS	The Pensions Advisory Service
TPI	Tax and Prices Index
tPR/TPR	The Pensions Regulator (in common usage)
TUC	Trades Union Congress
TUPE	Transfer of Undertakings (Protection of Employment) Regulations
TV	Transfer Value
TVAS	Transfer Value Analysis
UAP	Upper Accrual Point
UEL	Upper Earnings Limit
UURBS	Unfunded Unapproved Retirement Benefits Scheme
VAT	Value Added Tax
WGMP	Widow's/Widower's Guaranteed Minimum Pension

PENSIONS RESEARCH ACCOUNTANTS GROUP (PRAG)

PRAG is an independent research and discussion group for the development and exchange of ideas in the pensions field. Its efforts are concentrated mainly on the areas of reporting and accounting by pension schemes but it has also produced reports on other related matters.

The first, and probably the best known, publication of the Group was a report entitled 'Financial Reports for Pension Funds'. This report had a revolutionary effect on pension fund reporting and formed a blueprint for subsequent legislation and accounting practices.

The membership of the Group comprises accountants and managers of pension schemes, together with practitioners in the actuarial, accountancy and consultancy professions. It therefore represents a very broad cross-section of pensions expertise.

Anyone willing to support the Group may become a member, with many organisations providing more than one member. The total membership is currently over 400.

The Group is always looking for new members since a constant stream of new ideas and enthusiasm is needed if PRAG is to continue to produce the high calibre reports for which it is renowned.

The main benefits of membership are the opportunities to:

- have access to free or subsidised copies of the Group's publications;
- be at the forefront of developments through taking part in one or more of the many working parties;
- attend meetings with fellow professionals in the pensions industry.

The main activity of the Group is the production of publications on various pension topics and the preparation of responses to relevant Government and accountancy bodies' documents. This is done through the medium of working parties which prepare drafts for approval by the Executive Committee.

When time permits, they are also discussed at a full meeting of the members before finalisation. Consequently, the Group's publications and responses should reflect the collective thinking of its members across a wide range of professional disciplines.

There are usually two full meetings per annum, one of which is the Annual General Meeting. They provide an opportunity for members to meet their colleagues in the industry to exchange views on matters of mutual interest. Reports are given on the status of working parties in progress and presentations are made on current topics by people eminent in their field.

Details of membership may be obtained from the membership website:
www.prag.org.uk

PENSIONS MANAGEMENT INSTITUTE

The Pensions Management Institute (PMI) is the UK's leading professional body for those working in the field of pensions and employee benefits. It supports and develops the experts who are responsible for running the UK's pensions industry and is acknowledged as the body for establishing, maintaining and improving professional standards in every area of pension scheme management, consultancy and trusteeship.

It provides a suite of qualifications for those at the top of a pensions structure, like company pensions managers or senior consultants, through to those carrying out essential front line roles like pensions administration and benefit calculation.

It has a membership of c5000 professionals whose ongoing professional development is supported by a full range of services including: numerous publications; a popular programme of national events; a network of eight UK regional groups; an online interactive TV channel; and an online careers service.

The PMI plays a vital role in shaping the nation's pensions industry and, as a result, impacts on the success of UK business as a whole. The PMI prides itself in leading the future of pension's standards and practices across the UK. It is a non lobbying professional body which works with government and other bodies in the financial sector to ensure the views of members are put forward in a sound and impartial manner.

For full details of PMI's qualifications, membership and ongoing support services please visit **www.pensions-pmi.org.uk**

The Pensions Management Institute
PMI House
4-10 Artillery Lane
London E1 7LS
Telephone: 020 7247 1452
Facsimile: 020 7375 0603
Email: enquiries@pensions-pmi.org.uk
www.pensions-pmi.org.uk