PENSION MATTERS

Our

GLOSSARY

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Actuary
A financial expert who calculates the risks and costs relating to insurance products, including longevity to determine annuity rates and transfer values.

Additional Voluntary Contributions (AVCs)
Payments a member of an occupational (company) pension can make in addition to those they are required to by their employer in order to boost retirement benefits.

Annual Allowance
An annual limit on payments to pension schemes, above which tax charges may apply. For defined contribution pension schemes (such as personal pensions and stakeholder pensions) this is simply the value of payments made for the member, including any employer payments. For defined benefit pension schemes it is the increase in the value of the member's rights. The annual allowance is currently £40,000 (20015/16 tax year) or £10,000 if you are subject to the Money Purchase Annual Allowance.

Annuity
A financial product that provides a guaranteed regular income for life normally purchased with funds built up in a pension plan. The income can be fixed or increase over time and can continue for a spouse or civil partner on the death of the annuitant and/or provide certain capital guarantees.

Annuitant
The person that purchases an annuity or on whose life the annuity is based.

Basic State Pension
A flat rate payment (not earnings related) paid by the Government to those at State Pension Age and who have met the minimum National Insurance Contribution requirements.

Bid-Offer Spread
The difference between the price at which units in an investment fund are bought and sold.

Bid Price
The price at which a units in a particular investment fund are sold.

Bonds
Debt issued by Companies to raise capital, usually paying a fixed rate of interest for a fixed term. Less volatile than shares and considered lower risk. The rate of interest paid reflects the standing and security of the Company that can range from 'investment grade' to Junk Bonds'

Bonus

An additional payment made to a with profits plan. During the term of the plan a regular bonus (also known as annual or reversionary bonus) may be added each year and, at the end of the plan, a final bonus (also known as terminal bonus) may also be added.

Buy Out Plan

An individual pension plan designed to accept benefits transferred from a previous occupational (company) pension scheme and can provide certain guarantees such as higher amounts of tax free cash. Sometimes known as a Section 32 Buy Out Plan.

Carry Forward

The facility to make larger payments into your pension than normally permitted by carrying forward any unused tax relief from the previous 3 tax years after the maximum for the current year has been contributed.

Company Pension

See occupational pension.

Contracting Out

The process of opting out of the State Second Pension for a particular tax year in return for either a payment from the Government into a pension plan (defined contribution pensions) or lower National Insurance Contributions (defined benefit pensions). The payment from the Government is known as a contracting out payment or rebate. Contracting Out ceased for money purchase pension arrangements from April 2012.

Critical Yield

The annual rate of growth a private Pension scheme would need to achieve on your transfer value to match the benefits you would be giving up from your previous employer's Pension scheme at retirement age.

The Critical Yield relates not only to the actual Pension to be paid but also takes into account any ancillary benefits provided by your Pension scheme such as Spouse's or dependent's benefits pre and post retirement, Death in Service cover, index linking, etc. Therefore the actual percentage rate shown includes the cost of providing these benefits as well as a Pension income in retirement because within a Personal Pension environment these would all have to be paid for separately and could add substantially to your retirement planning costs. Depending on your personal circumstances these ancillary benefits may not be important to you but we must take them into account so we are comparing the options on a realistic basis.

Clearly the higher the figure required, the less likely it is that a transfer to a Personal Pension would be beneficial for you, when considering the financial situation alone. It is impossible to estimate if the Critical Yield required could be achieved but as Personal Pension providers have to illustrate Pensions using growth rates of between 5%-9% anything above that level would be considered difficult to achieve, not least without a substantial degree of investment risk.

Defined Benefit Pension

Type of pension where income in retirement is directly related to earnings and years of service with an employer. Often referred to as final salary.

Defined Contribution Pension

Type of pension where payments are known in advance but the income provided in retirement is unknown as it will be dependent upon investment returns. Also known as a money purchase pension.

Dependant

A person that is financially dependent on someone else. Usually a Spouse, Civil partner or Child under 23.

Earnings Cap

The limit on earnings that can be used when calculating the maximum payments and benefits allowed for a number of different types of pension.

Replaced by the annual allowance and lifetime allowance from 6 April 2006.

Enhanced Annuity

Provides pension income at a rate higher than conventional annuity as a result of lifestyle factors such as smoking or occupation.

Enhanced Protection

A method of protecting the value of pension benefits built up by 5 April 2006 from the lifetime allowance charge when benefits are taken.

Equity/Equities

Another name for Company Shares

Executive Pension Plan

An occupational (company) pension plan that an employer sets up for employees, usually senior executives and other key personnel.

Flexible Drawdown

Flexible drawdown allows some investors to take as much income as they like from their pension (subject to income tax), provided they have a guaranteed pension income of £12,000 per annum. This will be extended in April 2015 so there is no Minimum Income Requirement ie unlimited access to all of your Pension funds (subject to Income Tax).

Financial Conduct Authority (FCA)

The body set up by the Government to regulate financial services in the UK, a role previously undertaken by the Financial Services Authority.

Final Salary Pension

Type of pension where income in retirement is directly related to a person's final salary and the number of years service with an employer. Also known as defined benefit pension.

Free Standing AVC Plan

An individual pension plan designed to top up an occupational pension but which is separate from the main scheme.

Group Personal Pension / Group Stakeholder Pension

A collection of individual plans that benefit from the same charges and a central collection point for payments. Often provided by employers for employees instead of an occupational pension.

Government Actuary's Department (GAD)

A Department within the Treasury, that amongst other things provides tables which form the basis for calculating Income payable from Income Drawdown (Unsecured Pension) plans.

GAD rate

The percentage rate applicable for calculating the maximum income payment from Income Drawdown plans. The rates and the published tables they appear in are revised every month and published by HM Treasury.

GAD Review

Income limits are calculated at the start of your Drawdown plan using GAD rates, which use your age and 15 year gilt yields to calculate the income available from your fund.

The income limits calculated at outset are fixed until the next review which is every 3 years, at which time your income will be recalculated (although you should monitor any income you take more frequently).

After each review we will tell you the new annual income limit, which could be lower or higher than the limit from the previous 3 years depending on your fund value and the prevailing GAD rates.

Each year you may request a review takes place on the plan anniversary. This will restart the next three year period.

Once you reach age 75 the plan and your income level must be reviewed annually.

Guaranteed Annuity Rate

The right to use the proceeds of a pension plan to buy an annuity at rates determined when the plan was taken out. Only available on some older pensions.

Gilts

Government issued debt paying a fixed rate of interest known as the 'coupon'. Considered a low risk/low return investment.

Guaranteed Minimum Pension (GMP)

The minimum pension that occupational pension schemes must provide for pre 6 April 1997 service (unless the scheme was contracted-out through the provision of protected rights).

Impaired Life Annuity

Provides retirement income at a rate higher than a conventional Annuity due to life shortening medical conditions such as Diabetes.

Income Drawdown

The withdrawal of income directly from a pension. Allows the purchase of an annuity to be deferred indefinitely. Also known as income withdrawal or unsecured pension.

Increment

An increase in regular payments or an additional one-off payment to an existing plan.

Lifetime Allowance

The lifetime allowance is an overall maximum on the amount of pension savings that any one individual can accumulate without being subject to additional tax charges. The Standard Lifetime Allowance (SLA) is currently £1.25 million (2014/15 tax year). If an individual has registered for Primary or Enhanced Protection it may be possible to protect pension benefits in excess of the SLA from some or all of the additional tax charges.

Lifetime Annuity

An annuity that pays an income for the rest of an individual's life.

Market Value Reduction

A reduction in the value of with profits investments which may be applied on early retirement or transfers out of with profits funds. This is applied to preserve the equity between all members of the fund, both those leaving and those staying (i.e. ensures everyone receives a fair share of the fund).

Money Purchase Pension

A type of pension where a pot of money is built up over time and then used at retirement to buy an annuity. Also known as defined contribution pension.

National Average Earnings Index (NAEI)

An index of average earnings issued by the Government. Shows the average increase in earnings each year.

Normal Retirement Age

The age at which members of an occupational pension normally retire. Also known as normal pension age.

Occupational Pension

A pension organised by an employer for their employees. These can be defined benefit, defined contribution or a mixture of both. They must meet certain criteria, such as requiring trustees to be appointed and the employer having to make payments on behalf of members. Also known as a company pension.

Offer Price

The price at which units in a particular investment fund are bought.

Open Market Option (OMO)

The option to purchase an annuity with the proceeds of a pension from any insurance company and not just the existing pension provider. It is essential to exercise your OMO to obtain the best pension income.

Paid Up Pension

A pension which has had regular payments permanently stopped (defined contribution pensions) or where a member of an occupational pension is no longer accumulating additional pension benefits (defined benefit pensions).

Payment Holiday

Period of time during which payments to a pension plan can be temporarily stopped.

Payment Indexation

The automatic increase in payments each year. Also known as payment escalation.

Pension Commencement Lump Sum (PCLS)

A tax-free lump sum available when benefits are taken from a pension. Normally up to 25% of the value of the pension benefits can be taken as a tax-free lump sum. Taking a lump sum payment usually reduces the regular income that can be provided by a pension. Also known as tax-free cash.

Personal Pension Plan

An individual pension designed primarily for people who want to save for retirement but who are ineligible to join an occupational pension (such as the self-employed) or who simply wish to top up their retirement savings.

Phased Retirement

The option to draw your Pension in stages using segments of a pension fund to take tax free cash and income withdrawal or purchase annuities, rather than using the entire fund to provide an income. The unused segments continue to be invested.

Primary Protection

A method of protecting the value of pension benefits built up by 5 April 2006 from the lifetime allowance charge when benefits are taken. Only available to individuals with pension benefits at 5 April 2006 that exceed £1.5 million.

Protected Rights

Any contracting out payments received from the Government must be held separately from the funds built up by other types of payments. These are known as protected rights funds. Protected Rights ceased to exist within Personal pensions after April 2012

Retail Prices Index (RPI)

An index of the change in prices of a range of different goods and services. This is one of the main measures of inflation in the UK.

Retirement Annuity Contract

An older type of individual pension available before the launch of personal pensions. Ceased to be offered from 1 July 1988.

Selected Retirement Age

The age at which members of a personal pension or stakeholder pension choose to start receiving retirement benefits. This is selected when the plan is started. Also known as selected pension age.

Self Invested Personal Pension (SIPP)

A type of personal pension which gives the holder greater choice and more control of how their pension fund is invested but with additional costs.

Small pots rule

Clients aged 60 or over are able to receive up to 3 lump sum payments of up to £10,000 each from different Pension Schemes if this is the total value of their benefits within the scheme.

Stakeholder Pension Plan

A low cost pension introduced by the Government in 2001 for individuals wanting to save for retirement but who are either ineligible to join an occupational pension (such as the self-employed) or who simply want to top up their retirement savings.

State Earnings Related Pension (SERPS)

A State Pension which is based on earnings between certain levels. Replaced by the State Second Pension in April 2002. Any benefits accumulated before this date are maintained.

State Pension Age (SPA)

The age from which State retirement benefits start. This is 65 for men and 62-65 for women. From 2020 the SPA will be 66 for both sexes. Also known as the State Retirement Age (SRA).

State Second Pension (S2P)

A State Pension which is based on earnings between certain levels (or assumed earnings for low earners). Replaced the State Earnings Related Pension (SERPS) in April 2002.

Tax-Free Cash (TFC)

A tax-free lump sum available on retirement. Taking this lump sum payment usually reduces the regular income that can be provided by a pension. Also known as a pension commencement lump sum.

Transfer Value

The Cash Equivalent Transfer Value (CETV) is the value of pension rights built up within a scheme available to you if you wish to move your benefits to another pension scheme never accept a transfer payment without undertaking a full analysis of the benefits you may be losing upon transfer.

Transfer Value analysis

An investigation usually undertaken by an IFA to establish the merits or otherwise of transferring from your existing pension scheme. This will usually be in the form of a report and contain details not only of pension income but also death benefits family benefits etc and a comparison with your proposed new pension scheme.

Transfer Payment

The transfer of pension benefits from one pension plan to another. This can be less than the existing value of the pension.

Trustee

An individual or company appointed to ensure that a pension scheme is operated in a manner that is in the best interests of the member(s).

Triviality

If you aged 60 or over and all of your pension funds total less than £30,000 in value you may take them as a single lump sum, 25% of which will be tax free, the residual 75% subject to your marginal rate of tax.

Unit Linked Fund

An investment fund which is split into units. Payments into the fund purchase units. The price of units fluctuates depending on the value of the underlying investments - company shares (equities), property etc. Nearly all investment funds available through pensions are unit linked.

Unsecured Pension

Also known as Income Drawdown. A method of receiving an income from a pension without having to purchase a lifetime annuity. The income can be provided in two ways - income drawdown/withdrawals and short-term annuities.

Variable Annuity

Very often called the 'third way' as they are seen as a halfway house between an Annuity and income Drawdown offering guaranteed levels of income like an Annuity but with the flexibility and death benefits of Income Drawdown.

Waiver of Premium

A benefit that allows regular payments to continue to be credited to a personal pension on illness or incapacity. Withdrawn to new plans from 6 April 2001.

With Profits Fund

A type of investment fund which invests in a range of different types of asset, including company shares (equities), property, government bonds (gilts) and cash deposits. Instead of getting direct investment returns, for example dividends, rent or interest, plan holders receive bonuses. Bonuses are designed to allow the fund value to grow steadily over time by smoothing out some of the fluctuations typical of investment performance.

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