

Glossary

We gratefully acknowledge the Pensions Management Institute, the Pensions Research Accountants Group and the Pensions Commission for allowing use of items from their respective glossaries.

A-Day

On 6 April 2006 – ‘A-Day’ – the Government implemented a new, simplified tax regime for pensions to replace the eight existing regimes.

Accrual

The build-up of a scheme member’s pension benefits or rights.

Accrual rate

The rate that defines the benefits that are built up in **Defined Benefit** (DB) pension schemes. For example, a final salary scheme with an accrual rate of 1/80th will calculate benefits by multiplying the final year’s pensionable pay by the number of years in pensionable service times 1/80.

Accumulation

The stage in people’s lives when they are building up pensions. See also: **Decumulation**.

Active members

Active members are current employees who would normally contribute (or have contributions made on their behalf) to an organisation’s **pension scheme**. In some cases, there may be a break in contributions, known as a **contribution holiday**.

Actuarial assumptions

The assumptions made by **actuaries** in formulating valuations or making other calculations. Assumptions would include changes in longevity, wage growth, inflation and the discount rate.

Actuarial reduction

The reduction in pension, calculated by an **actuary**, that occurs if someone takes their pension before the **normal pension age** specified in the scheme rules.

Actuary

An adviser on financial questions involving probabilities relating to **mortality** and other contingencies.

Additional state pension

The generic name for the part of the state pension which is received by some people in addition to the **Basic State Pension**. Currently, it is the **State Second Pension** (S2P). Before 6 April 2002, it was known as the **State Earnings-Related Pension Scheme** (SERPS) and before that as **graduated retirement benefit**. See also: **Flat-rate State Pension, Contracted out** and [Pension Trends Chapter 5](#).

Additional voluntary contributions (AVCs)

A pension top-up arrangement where an employee pays additional amounts into a pension run by their employer in order to increase their pension entitlement. Normally, the contributions are deducted from the employee’s pay. See also: **Free-standing additional voluntary contributions**.

Administrative data

Data that are a by-product of the operational activity of an organisation, such as tax data from HM Revenue and Customs. Administrative data are distinct from survey data, which are collected specifically for a statistical or research purpose.

Alternatively secured pension (ASP)

A form of **income drawdown**, introduced on **A-Day** to provide an alternative to using pension savings to buy an **annuity**. Individuals can continue to invest their pension savings and draw a limited income from their fund.

Annual management charge (AMC)

A charge levied on an investment fund for its management and administration.

Annuity

A financial instrument provided by an insurance company that pays a guaranteed annual income to the holder, typically until death. Members of **defined contribution** pension schemes generally purchase annuities with their accrued funds upon retirement in order to secure an income.

Appropriate personal pension (APP)

A type of **personal pension** that meets certain regulatory requirements that allow an individual employee to contract out of the **State Second Pension** (formerly SERPS) and receive **contracted-out rebates** from **National Insurance** payments. However, these personal pensions were abolished on the 6th of April 2012. See also: **Contracted out**

Auto-enrolment/automatic enrolment

Under reforms brought in by the Pensions Acts [2008](#) and [2011](#), employers must enrol all **eligible employees** into a qualifying private pension. Workers can opt out but will be re-enrolled every three years and need to opt out each time. Auto-enrolment is a staged process to 2018, starting with the larger employers in 2012. See also: **Contractual Enrolment, Eligible Employees, Minimum contribution levels, Opt out**, and [Pension Trends Chapters 6](#)

Basic State Pension (BSP)

The Basic State Pension is a weekly payment made by the Government to people who have reached **State Pension Age**. An individual's Basic State Pension depends on the number of qualifying years that they have earned during their working life.

The number of **qualifying years** is based on the **National Insurance** contributions that a person has been paid, has been treated as having paid, or has been credited with. For people reaching **State Pension Age** on or after 6 April 2010, the requirement for a full **Basic State Pension** is 30 qualifying years. See also: [Pension Trends Chapter 5](#) and [state pension on gov.uk](#)

Subject to the progression of the [2013-14 Pensions Bill](#) through Parliament, the State Pension and the number of qualifying years will change from 2016. See also: **Flat-rate State Pension**.

Beneficiary

A term usually referring both to the member of a pension scheme and their dependants to whom benefits are payable. It is sometimes used to refer only to the dependants who will benefit.

Bond

A negotiable loan instrument sold by firms (**corporate bonds**) and the Government (commonly known as **Gilts**), generally with a fixed term to maturity, that pays the holder the face value (or 'principal') upon redemption, together with 'coupon' payments paid semi-annually (sometimes annually) during the term to maturity. A bond that makes no coupon payments is known as a zero-coupon bond.

Bulk buyout

On winding up an occupational pension scheme, trustees will normally buy out the accrued benefits of members and other beneficiaries who have immediate or deferred annuities. Where there is a deficit in scheme funding, and scheme wind-up starts after 5 April 2005 and the employer is insolvent, the scheme will be assessed by the **Pension Protection Fund**.

Buy in

With a pension buy-in, the pension scheme sponsor exchanges the existing assets of the scheme for annuities that are provided by an insurance company. See also: **Buy out**.

Buy out

With a pension buy-out, existing pension scheme assets and liabilities are transferred to an insurance company. In this instance, the **longevity risk** of the scheme is transferred to an insurance company. See also: **Buy in**.

Career average revalued earnings (CARE) scheme

A **Defined Benefit (DB)** scheme that gives individuals a pension based on salary times the accrual rate in each year of their working life. Entitlements that are built up each year are revalued until retirement in line with inflation or earnings. An example is provided on the [HM Treasury website](#).

Closed pension scheme

See **scheme status**.

Cohort

A group of people who are observed over time, usually defined by date of birth or date of attaining some other status. For example, a sample of people born in 1951 would form a birth cohort.

Consumer Prices Index (CPI)

The CPI measures the average change in prices (inflation) across a wide range of consumer purchases. It is the basis for the UK Government's inflation target which the Bank of England's Monetary Policy Committee is required to achieve. In June 2010, the government announced its intention to use the CPI (instead of the **Retail Prices Index**) from 6 April 2011 for the indexation of state pensions and pensions for public sector employees, as well as for benefits and tax credits. Some private sector pension schemes may also use the CPI for indexation purposes.

Contract-based pensions

Pensions where the legal contract is between the individual and the pension provider, usually an insurance company. Contract-based pensions are also known as **personal pensions**.

Contracted out

This refers to a statutory arrangement under which pension schemes that meet certain conditions may contract out of the **State Second Pension (S2P)**, formerly the **State Earnings-Related Pension Scheme (SERPS)**. The members' and employers' **National Insurance** contributions are reduced or partially rebated. Members of a contracted out pension scheme obtain rights in the pension scheme in place of rights to an **additional state pension**.

From April 2012, the ability to contract out only applies to **Defined Benefit** schemes. With the proposed introduction of the **flat-rate state pension** this will also end.

Contracted-out mixed benefit scheme (COMBS)

An occupational pension scheme which has separate **Defined Benefit (DB)** and **Defined Contribution (DC)** sections and which contracts out on both bases. From April 2012, these sorts of schemes are no longer available given the end of **contracting out** for DC. See also: [HM Revenue and Customs website](#).

Contracted-out money purchase scheme (COMPS)

A scheme that contracts out on a **Defined Contribution (DC)** basis. From April 2012, these sorts of schemes are no longer available given the end of **contracting out** for DC. See also: [HM Revenue and Customs website](#).

Contracted-out rebate

The amount by which the employer's and employee's **National Insurance** contributions are reduced when the employee is in a **contracted-out** pension.

Contracted-out salary-related scheme (COSRS)

An occupational pension scheme that has retirement benefits that are based on salary, and which has been contracted out according to Section 9(2) of the Pensions Schemes Act 1993. With the proposed introduction of the **flat-rate state pension** these schemes will cease to exist.

Contracted-out stakeholder pension (COSP)

A stakeholder pension that has been contracted out according to the **Appropriate Personal Pension** requirements. From April 2012, these sorts of schemes are no longer available given the end of **contracting out** for DC.

Contractual enrolment

Contractual enrolment requires the consent of employees before they join a workplace pension scheme. It is often obtained via the terms of the worker's employment contract. This is different to **Automatic enrolment**, where consent is not required and the employer has a legislative responsibility to make an employee a member of a pension scheme. See also: [guidance from the Pensions Regulator](#).

See also: **Auto-enrolment**

Contributions

Payments into a pension by employees (and other individuals) or by employers.

Contribution holiday

A temporary period during which the employer or employees take a break from making contributions because of a surplus in a **defined benefit** pension fund.

Corporate bonds

See **bond**.

Corporate securities

See **securities**.

Crude birth rate

The simplest overall measure of fertility in a population, given by the number of live births in a year per 1,000 mid-year population. It takes no account of the composition of the population, in particular the age and sex distribution.

Crude death rate

The basic measure of the level of mortality in a population, defined as the total number of deaths per 1,000 mid-year population. The crude death rate takes no account of any variation in mortality levels by age or sex.

Decile

See **percentile**.

Decumulation

The drawing down of pension assets to fund retirement. In the UK it is permitted to access pension assets partially as a **tax-free lump sum** and partially as an income stream (e.g. as an **annuity** or **income drawdown**). See also: [The Money Advice Service](#) website.

Deferred entitlement

Entitlement to a pension payable at some time in the future. It can be either entitlement to a pension payable from **normal pension age** for someone who has left a scheme or entitlement to a pension that has been deferred because retirement has been postponed beyond **normal pension age**.

Deferred member

A member of a pension scheme who has accrued rights or assets in the scheme that will come into payment at **normal pension age** but who is no longer actively contributing (or having contributions paid on his or her behalf) into the scheme.

Defined ambition pension

A type of pension that may take different forms but is effectively a form of **hybrid** pension. Examples include schemes where the employer guarantees the size of the pension pot to be given to the employee on retirement but, as with a standard **Defined contribution** arrangement, the level of income is subject to annuity rates available at the point of retirement. Alternatively, the employee could be guaranteed an annual level of pension but the **normal pension age** could be changed by the employer. See also: **Career Average Revalued Earnings (CARE)**, [the Department for Work & Pensions' report 'Reinvigorating workplace pensions'](#) and [Pension Trends Chapter 6](#)

Defined Benefit (DB)

A pension in which the rules of the scheme specify the rate of benefits to be paid. The most common **Defined Benefit (DB)** scheme is a final salary scheme in which the benefits are based on the number of years of **pensionable service**, the **accrual rate**, and the final salary. An alternative to the final salary scheme is the **Career Average Revalued Earnings (CARE)** scheme, which is also a defined benefit scheme.

Defined Contribution (DC)

A pension in which the benefits are determined by the contributions paid, the investment return on those contributions (less charges), and the type of annuity purchased upon retirement. It is also known as a money purchase pension.

Dependant

A person who depends financially on the pension scheme member, or did so at the time of the member's death or retirement.

Dependency ratio

The ratio of the number of dependent people to the number of those supporting them. For example, the old age dependency ratio is the number of people over **State Pension Age** in relation to the number of people of working age. The **support ratio** is the inverse of the dependency ratio, and is the number of people giving support in relation to the number of people depending on them.

Discount rate

A rate used to reduce an amount of money at a date in the future (called a future value) to an equivalent value (called a present value) in the present.

Economically active

People who are either in **employment** or **unemployed**. See also: **Economically inactive**.

Economically inactive

Economically inactive people are those who are neither in **employment** nor **unemployed**. Examples of economically inactive are those looking after a home or family, retirees and the long-term sick or disabled.

Eligible employee

Under the Pensions Acts 2008 and 2011, eligible employees are defined as those:

- aged between 22 and **State Pension Age**;
- working within the UK; and
- earning above £9,440 a year (in 2013/14).

People who are not eligible still have the right to join their employer's pension scheme if they wish to do so.

See also: **Auto-enrolment** and [The Pensions Regulator's website](#).

Employer-facilitated pension

A **workplace pension** that is organised through the employer, enabling pension contributions to be made through the payroll. The employer may make a contribution. An employer-facilitated pension will be a group personal or group stakeholder pension rather than an **occupational pension** scheme.

Employer-provided pension

A **workplace pension** that is organised through the employer, enabling pension contributions to be made through the payroll. The employer is likely to make a contribution. An employer-provided pension will be an **occupational pension scheme**, not a group personal or group stakeholder pension.

Employer-sponsored scheme

A **workplace pension** that is organised through the employer. It may be **employer-facilitated** or **employer-provided**.

Employment

People who are in employment may be employees, self-employed, on a government-supported training programme, or unpaid family workers. The International Labour Organisation (ILO) defines people as being employed if they are in one or more hours of paid employment a week. See also: [Office for National Statistics \(ONS\) - Guide to Labour Market statistics](#).

Equity

A share or any other security representing an ownership interest, typically in a company.

Equity release

Equity release schemes give home owners a way of accessing part or all of the value of their home, either as a lump sum or as an **annuity**, while continuing to have residence rights during their lifetime.

Financial Assistance Scheme

Set up under the Pensions Act 2005, the Financial Assistance Scheme provides compensation to members of **Defined Benefit (DB)** pensions where the employer became insolvent between 1997 and 2005. See also: **Pension Protection Fund** and [PPF website](#).

Fertility rate

The number of live births in a population in a given period. It can be measured in several ways. See also: **Crude birth rate**.

Final salary scheme

See **defined benefit scheme**.

First tier

See **tier**.

Flat-rate State Pension

The current State Pension is formed of the **Basic State Pension (BSP)** and the **Additional state pension**. The [Pensions Bill 2013/14](#) proposes to simplify this by removing the additional state pension and having one single weekly rate.

Subject to the Bill's progress through Parliament, the flat-rate state pension will be implemented from April 2016. The Bill contains special provisions for people who have made **National Insurance** contributions (NICs) before implementation to ensure that all their NICs are taken into account. To receive the full pension, a minimum number of **qualifying years** has to be built up which is currently proposed to be 35 years. For those with less than this, the amount they receive will be provided on a pro-rata basis.

Contracting out for **defined benefit** schemes will also cease, as will the **Savings Credit** element of **Pension Credit**. See also: [factsheet from the Department for Work and Pensions](#).

Free-standing additional voluntary contributions (FSAVCs)

A pension top-up arrangement where an employee pays additional amounts into a pension provided by a company outside their place of employment to increase their pension entitlement. Normally payments are made from the individual's bank account. Employers are not obliged to make contributions. See also: **Additional voluntary contributions**.

Frozen pension scheme

See **scheme status**.

FRS17

Financial Reporting Standard (FRS)17 is the accounting standard for UK pension costs. It is mainly concerned with **defined benefit** occupational schemes in the private sector but applies to all retirement benefits. It requires sponsoring employers to value on a "fair value" basis the assets and liabilities of their occupational schemes. The resulting surplus (or deficit) must then be recognised as an asset (or liability) in the company balance sheet. FRS17 replaced the previous standard SSAP24 on 30 November 2001.

Fund

See **pension fund**.

Funded scheme

A scheme in which benefits are met from a fund built up in advance from contributions and investment income.

Gilts

An abbreviation for 'gilt-edged securities', also known as government **bonds**. These are negotiable loan instruments issued by the UK Government. They are generally similar in structure to corporate bonds, paying a fixed schedule of coupon payments together with the return of the principal (i.e. the face value of the bond) on the redemption date. Gilts are generally considered to be one of the safest forms of investment and so generate a correspondingly lower return than some more risky assets such as corporate bonds or **equities**. Some Gilts make payments that are fixed in cash terms, whereas others make **index-linked** payments.

Government securities

See **securities** and [Pension Trends Chapter 9](#).

Graduated retirement benefit

Between 1961 and 1975, employees paid graduated **National Insurance** contributions on top of their flat-rate contributions, above a certain earnings limit. Graduated retirement benefit is that part of an individual's **additional state pension** that depends on these contributions.

Gross Domestic Product (GDP)

The total value of economic activity in a country or region. It is measured in either current prices or real terms.

Gross operating surplus

The value of businesses' outputs, less intermediate inputs and the remuneration of labour.

Group Personal Pension (GPP)

An arrangement made for the employees of a particular employer or group of employers to participate in a **personal pension** on a group basis. This is a collecting arrangement only; the contract is between the individual and the pension provider, normally an insurance company. See also [Pension Trends Chapter 6](#).

Group Self-Invested Personal Pension (GSIPP)

An arrangement made for the employees of a particular employer, or group of employers, to participate in a **personal pension** on a group basis. The GSIPP is similar to the **Group Personal Pension**, except that it is the policy holder rather than the pension provider who chooses the investments.

Group stakeholder pension

An arrangement made for the employees of a particular employer, or group of employers, to participate in a **stakeholder pension** on a group basis. This is a collecting arrangement only; the contract is between the individual and the pension provider, normally an insurance company.

Guarantee Credit

A **means-tested benefit** that is part of **Pension Credit** and provides pensioners with a minimum level of income.

Home Responsibilities Protection (HRP)

This reduced the number of years for which someone had to make **National Insurance** contributions in order to receive a full state pension. It was available to people who were not in work because they cared for children or the long-term sick or disabled. These have now been replaced by **National Insurance credits**. See also: [www.gov.uk website](http://www.gov.uk).

Household Reference Person (HRP)

This is defined as the person in whose name the accommodation is owned or rented. When there are joint householders, it is the person with the highest income; if their incomes are the same, then the older person is selected.

Household saving ratio

The proportion of total household resources – the sum of all households' gross disposable income plus equity gains from pension funds – that is left once their consumption expenditure has been deducted.

Housing Benefit

A **means-tested benefit** through which the UK Government helps qualifying individuals to meet rental payments.

Qualification criteria include income, savings and personal circumstances.

Hybrid scheme

An **occupational** pension that offers members either a choice, or mixture, of **defined benefit** and **defined contribution** rights at retirement. If the scheme offers a choice, the benefit is calculated as the better of the two alternatives; each acts as an **underpin** for the other. For example, a typical hybrid arrangement offers a **defined contribution** pension but is underpinned by a minimum **defined benefit** entitlement. See also: **Defined Ambition**

IAS 19

International Accounting Standard (IAS)19 changed the way pensions and other post-employment benefits are accounted for. It initially became mandatory after 2008, with further revisions becoming compulsory after 2011. It eliminated the option to defer the recognition of gains and losses, streamlined the presentation of changes in assets and liabilities arising from **defined benefit** pensions and enhanced their disclosure requirements. It was designed so that people and organisations are aware of the risk that is associated with DB commitments. It does this by requiring that the surpluses or deficits of a pension fund are included with a company's financial statements. See also [International Reporting Financial Standards website](#).

Incapacity benefit

Benefit paid to people incapable of work due to ill-health or disability and who have sufficient **National Insurance** contributions or became incapable of work in youth.

Income drawdown

Where an individual does not buy an **annuity** with their pension pot but instead draws an income from the fund. See also: **Alternatively secured pension, Unsecured pension** and [The Money Advice Service](#) website.

Index-linked

Bonds, Gilts, annuities and other financial products can be linked to an index such as the **Retail Prices Index**. The income and capital values of linked assets increase in line with that index.

Individual personal or stakeholder pension

A **personal pension** or **stakeholder pension** taken out by an individual on their own initiative, as opposed to a group personal or group stakeholder pension which is facilitated by an employer.

Individual Savings Account (ISA)

A regulated savings account available to most UK residents as a means of earning tax-free returns on a variety of assets, including cash, life insurance, stocks and shares. There are limits on the value of total investment in any one financial year. In April 1999, ISAs superseded Personal Equity Plans (PEPs), and Tax-Exempt Special Savings Accounts (TESSAs) which had been introduced in 1987 and 1991 respectively to encourage personal savings. PEPs and TESSAs also allowed tax-free returns to be earned. Since the introduction of ISAs, no new contributions to PEPs or TESSAs have been allowed.

Insurance-managed pension fund

A type of **self-administered pension fund** where an insurance company acts as external investment manager, but ownership of the assets remains with the scheme. See also: **Insured pension scheme**.

Insured pension scheme

An occupational pension scheme in which the benefits are secured by insurance policies and the insurance company holds the scheme assets. See also: **Insurance-managed pension fund**.

International Labour Organisation (ILO)

A specialised agency of the United Nations, created to deal with labour issues.

Interpolation

The calculation of new data points to fill in gaps within an existing set of known data points. For example, if an annual survey of employment had run from 1990 to 2005 but had been suspended for 2002, then an employment figure for 2002 could be interpolated by taking the average of the values for 2001 and 2003.

Interquartile range

The difference between the first and third **quartiles** of a distribution (see **percentiles**), which gives a measure of the extent to which the data in a sample are dispersed around the **median**.

Investment trusts

Companies that produce income by investing in the shares of a wide range of other companies.

Liabilities

In the context of pensions, the benefits owed to members by a pension scheme. See also: [Pension Trends Chapter 9 – Pension scheme funding and investment](#).

Life expectancy

Life expectancy at a given age is an estimate of the average number of years that someone of that age will live thereafter. It is calculated using age- and sex-specific mortality rates at that age, at that age plus a year, at that age plus two years, and so on.

Period life expectancy is calculated using age-specific mortality rates for the period under consideration and makes no allowance for changes in age-specific mortality rates after that period. For example, a period life expectancy calculation for a man aged 50 in calendar year 2000 would use male mortality rates for age 50 in 2000, age 51 in 2000, age 52 in 2000 (and so on).

Cohort life expectancy is calculated allowing for subsequent known or projected changes in age- and sex-specific mortality rates after that period. For example, a cohort life expectancy for a man aged 50 in 2000 would be calculated using male mortality rates for age 50 in 2000, age 51 in 2001, age 52 in 2002 (and so on). The cohort definition is the better measure of true life expectancy. See also: [Pension Trends Chapter 3](#).

Lifestyle fund

An investment fund that has an asset mix determined by the level of risk and return deemed appropriate for an individual investor according to their age. Funds aimed at younger

investors consist mainly of higher risk (and higher return) assets such as equities, while funds aimed at investors closer to retirement consist mainly of lower risk (and lower return) assets such as bonds. As investors age, their pension pots are moved into funds with decreasing levels of risk.

Limited Price Indexation (LPI)

LPI applies to pensions in payment relating to contributions made from April 1997. Under LPI, pensions had to be increased by 5 per cent per year or by the increase in the **Retail Prices Index** (RPI), whichever was less, until 2005, when the rate was changed to 2.5 per cent or RPI. In 2010, the government announced that indexation would, in future, be based on the **Consumer Prices Index** (CPI) rather than the RPI. This change affected public sector pensions and some private sector pensions.

Longevity risk

The risk that a pension fund or insurance company may end up paying out more than anticipated if those to whom it has agreed to pay a pension live longer than expected.

Longitudinal study/survey

A research study or survey that follows a group of individuals over a period of time.

Lower Earnings Limit

For the purpose of calculating rights to the **State Second Pension** (S2P), employee contributions are treated as having been paid on earnings from the Lower Earnings Limit up to and including the **Lower Earnings Threshold for National Insurance** contributions. Current levels are available on the [HM Revenue and Customs website](#). See also: **Flat-rate state pension**.

Lower Earnings Threshold

See **Lower Earnings Limit**.

Master Trust

A master trust is where a product provider, normally an insurance company, manages a pension scheme for a number of employers under a single trust arrangement. They can be **defined benefit** or **defined contribution** pension schemes.

Mean

A measure of the 'average'. The mean of a group of values is calculated by summing all of the values and dividing the total by the number of values. See also: **Median**.

Means-tested benefits

State benefits in which the amount paid depends on an individual's income, savings and other personal circumstances.

Median

The median of a distribution is the value below which half of the data lie. For example, if the heights of nine people are placed in order, then the median is the fifth height listed because half of the people will have heights below this and half will have heights above this. The median is a useful alternative to the **mean** when data are not evenly distributed. For example, when looking at income or wealth, it gives a better idea of the 'typical' person than the mean.

Minimum contribution levels

Under the Pensions Acts 2008 and 2011, minimum contribution levels are being phased in over the period from 2012 to 2018. The minimum contribution levels vary depending upon the scheme's definition of pensionable pay. In the case of a scheme where pensionable pay is equal to **qualifying earnings**, the minimum level of contributions are as follows (expressed as a proportion of the jobholder's qualifying earnings):

- between October 2012 and September 2017 DC schemes or personal pensions must have contributions of at least 2%, with at least 1% coming from the employer,
- between October 2017 to September 2018 the minimum contribution will be 5%, with at least 2% coming from the employer, and
- from October 2018 it will be 8%, with at least 3% coming from the employer.

Minimum funding requirement

A requirement, under the 1995 Pensions Act, that under a prescribed set of **actuarial assumptions**, the value of the assets of a **defined benefit** scheme should not be less than the value of its actuarial liabilities. This was replaced under the Pensions Act 2004 by the **statutory funding objective**. See also: [the Pensions Regulator's website](#).

Minimum Income Guarantee (MIG)

The forerunner of the **Guarantee Credit**.

Money purchase

See **defined contribution**

Mortality

The number of deaths that occurred in a population in a given period.

Mutual funds

In the UK, a term describing collective investment vehicles such as unit trusts and open-ended investment companies. Mutual funds allow investors to purchase identical units of a large fund (in essence, scaled-down versions of the overall fund), which pay a return in direct proportion to the return on the overall fund.

National Accounts

The system used to measure national income and output to estimate the value of goods and services produced in a country's economy.

National Insurance (NI)

The national system of benefits paid in specific situations, such as retirement, based on compulsory contributions. There are four main classes of contributions. **Class 1 contributions** are paid by the employed, and accrue rights to the Basic State Pension and State Second Pension. **Class 2 contributions** are paid by the self-employed and accrue rights only to the Basic State Pension. **Class 3 contributions** are voluntary, for those not contributing through classes 1 or 2, and accrue rights to the Basic State Pension. **Class 4 contributions** are for the self-employed and accrue no rights to benefits.

National Insurance credits

In certain circumstances NI credits are given to those unable to pay **National Insurance** contributions, for example those on particular benefits or not earning enough to pay NI. Credits can fill in the gaps in the NI record and therefore enable people to receive the full **State Pension**.

National Insurance number

Each UK resident is issued with a unique National Insurance number. It is used for assigning **National Insurance** contributions and credits to an individual's account and for the administration of the **Pay As You Earn** (PAYE) system.

National Insurance rebate

Contributions payable to **contracted out personal pension schemes** or **Free-Standing Additional Voluntary Contributions** from the **National Insurance Fund**, as well as some tax relief, in respect of a member who has elected to contract out.

National Savings Bonds

Personal savings bonds offered by National Savings and Investments, an executive agency of HM Treasury. They have fixed terms of one, three and five years to maturity and are purchased at a fixed rate of interest. Holders can choose either to receive monthly or annual interest payments, or to have those payments automatically reinvested at the initial interest rate.

National Statistics Socio-economic Classification (NS-SEC)

The classification used for all official statistics and surveys in the UK since 2001 to categorise socio-economic status. It is based on occupation, as classified by the **Standard Occupational Classification**, and employment status.

National Employment Saving Trust

The National Employment Savings Trust (NEST) is a trust-based **Defined Contribution (DC)** pension scheme which was set up under the Pensions Act 2008 to assist employers with auto enrolment compliance. It started taking on new members at the end of 2011. **See also:** Auto-enrolment and the [NEST website](#).

Non-contributory pension scheme

A pension scheme to which members do not need to make contributions.

Non-Profit Institutions Serving Households (NPISH)

A **National Accounts** category that includes bodies such as charities, universities, churches, trade unions and members' clubs.

Non-state pension

A pension other than the state pension (made up of the **Basic State Pension** and the **additional state pension**). A non-state pension may be referred to as a **private pension**. It includes all **workplace (occupational or group personal pensions**, including those for public sector employees) and **individual personal pensions**.

Normal pension age

The age at which **active members** and **deferred members** are normally entitled to receive their benefits under pension scheme rules. Pensions may be paid earlier in some cases, but they are likely to be subject to an **actuarial reduction**.

Occupational pension scheme

An arrangement (other than accident or permanent health insurance) organised by an employer (or on behalf of a group of employers) to provide benefits for employees on their retirement and for their dependants on their death. Occupational pensions are also referred to as **trust-based** and are a form of **workplace pension**.

Occupational Pensions Regulatory Authority (OPRA)

A regulatory body for occupational pensions that was replaced, with effect from April 2005, by the **Pensions Regulator**.

Open-ended investment company

A collective investment company that creates new units in a portfolio of underlying assets when money is invested and redeems them when money is withdrawn. Open-ended investment companies differ from unit trusts in that there is a single buying and selling price for the units traded.

Open pension scheme

See **scheme status**.

Opt out

Under the automatic-enrolment legislation, workers have a one (calendar) month window, from the point at which they are enrolled, in which to opt out. See also the [Pensions Regulator's website](#).

Outturns

In financial terms, realised income and expenditure in given periods in relation to original budgets.

Pay As You Earn (PAYE)

A mechanism used to collect tax, National Insurance contributions and some other statutory payments such as student loans from employees. The employer makes the appropriate deductions from weekly or monthly earnings and sends the contributions to HM Revenue and Customs. PAYE is not normally used for the self-employed.

Pay As You Go (PAYG)

A system in which the state uses revenue received from taxation and other sources in any one year to pay out pensions and other benefits for that year. There is no fund built up in advance from contributions and investment income, so the system is often referred to as **unfunded**. The **Basic State Pension** and the **additional state pension** are both PAYG schemes, as are many pension schemes for public sector employees.

Pension

An income to be used in retirement.

Pension Credit

1. The main means-tested benefit for pensioners, which combines the **Guarantee Credit** and the **Savings Credit**. See also: **Flat-rate State Pension**

2. This term is also used to refer to instances where the spouse of a pension scheme member is given a credit in respect of any pension benefits arising on divorce.

Pension fund

The pool of investment assets of a pension scheme or pension schemes which are purchased through aggregate employer and employee contributions. Fund holdings consist of longer-term financial assets such as corporate and public sector securities, fixed assets and other short-term assets. See also: [Pension Trends Chapter 9](#).

Pension Protection Fund

The Pension Protection Fund was established in April 2005 to pay compensation to members of eligible **defined benefit** pension 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 Pension Protection Fund levels of compensation. See also: **Financial Assistance Scheme** and [PPF website](#).

Pension scheme

A legal arrangement offering benefits to members upon retirement. Schemes are provided by employers and are differentiated by a wide range of rules governing membership eligibility, contributions, benefits and taxation. Pension schemes in the private sector have trustees. **Personal pensions** and **stakeholder pensions** offered by insurance companies may also be referred to as schemes but, technically, they are individual contracts rather than schemes.

Pensionable service

The period of employment that is taken into account when calculating pension benefits.

Pensioners' Guaranteed Income Bonds/Granny Bonds

Bonds that used to be issued by National Savings and Investments, which were available to those aged over 60 and offered a taxable fixed income over a fixed term to maturity. These products are no longer available. See [NS&I website](#).

Pensions in payment

Pensions that are being paid out to members, mostly in retirement.

Pensions Regulator

See **The Pensions Regulator** (TPR).

Percentiles

The 100 percentiles of a distribution divide the data, sorted in ascending order, into one hundred equal parts so that each part contains a hundredth of the distribution. For example, in a sample of 1,000 people, 10 will have earnings below the bottom percentile of earnings and 290 will have earnings below the 29th earnings percentile. Similarly, the 10 **deciles** of a distribution divide the data into ten equal parts so that each part contains one-tenth of the distribution. For example, in a sample of 1,000 people, 100 will have wealth below the bottom decile of wealth. **Quartiles** divide the population into four equally sized groups, **quintiles** into five. The **median** is the 50th percentile.

Period life expectancy

See **life expectancy**.

Persistency

Continuing to pay into a pension or other investment or savings policy that requires regular contributions over a period of time.

Personal Equity Plan (PEP)

A tax-free personal investment vehicle introduced in 1987. **Individual Savings Accounts** (ISAs) superseded PEPs in 1999.

Personal pension

An arrangement where the contract to provide contributions in return for retirement benefits is between an individual and an insurance company. Such plans may be taken out by individuals on their own initiative – for example, to provide a primary source of retirement income for the self-employed, or to provide a secondary income to employees who are members of occupational schemes (see **individual personal** or **stakeholder pension**). Alternatively, they may be facilitated by an employer (see **Group Personal Pensions**, **Group Stakeholder Pensions**, **Group Self-Invested Personal Pensions**). Personal pensions are a form of **defined contribution** pension. See also: [Pension Trends Chapter 6](#).

Premium Bonds

Savings instruments offered to individuals by National Savings and Investments, an executive agency of HM Treasury. Premium bonds are perpetuities (that is, they never mature) that do not pay interest; instead, holders become eligible for monthly prize draws where the prize fund is equal to the amount of interest earned on the total value of bonds outstanding.

Private pension

See **non-state pension**.

Private sector

The part of the economy consisting of individuals/households, firms and, in some outputs, **non-profit institutions serving households**. Definitions can vary between the different data sources and are dependent upon the register used as the sampling frame for the survey.

Provisional results

Results that have been published on an interim basis for the sake of timeliness and that will be superseded by final results incorporating full data at a later date.

Public sector

The part of the economy that is state-provided, including central and local government, schooling, health and social services, policing and the armed forces. Definitions can vary between the different data sources and are dependent upon the register used as the sampling frame for the survey.

Public sector securities

See **securities**.

Qualifying Earnings

Under the Pensions Acts 2008 and 2011, **minimum contribution levels** have been introduced. These can be expressed as a proportion of qualifying earnings. Qualifying earnings in 2013/14 refer to earnings of between £5,668 and £41,450. See also: **Auto-enrolment**, the [Pensions Regulator's website](#) and [Pension Trends Chapter 8](#).

Qualifying year

A tax year during which someone has built up **National Insurance** payments, whether through work (earning at least the annual **Lower Earnings Limit** in a tax year), being credited while on certain benefits, or through additional payments. See also: **flat-rate state pension**

Quartile/Quintile

See **percentiles**.

Quoted shares

Shares that are listed on a stock exchange. Shares that are not listed are called unquoted shares.

Retail Prices Index (RPI)

The RPI measures the average change in prices (inflation) across a wide range of consumer purchases. Before 6 April 2011, it was used for the indexation of state pensions, public sector employee pensions and benefits and tax credits; it remains the measure of inflation used for uprating index-linked Gilts.

Retirement

There is no widely agreed definition of retirement. Generally, it refers to someone who used to be in employment and has withdrawn from the labour market. However, there is no agreement on whether people should only be considered to be retired if their exit from the labour market is permanent, or if they are in receipt of a pension, or other factors. See also: [Pension Trends Chapter 4](#).

Retirement annuity contract

The forerunner of modern personal pensions.

Salary-related scheme

See **defined benefit** scheme.

Salary sacrifice

Salary sacrifice occurs when an employee gives up part of the cash pay due under their contract of employment, in return for some other form of benefit. For example, an employee may forgo an increase in salary in return for an equal increase in employer contributions towards their pension. Sacrifices of this type have tax and **National Insurance** incentives for employees, and **National Insurance** incentives for employers. See also: the [HM Revenue and Customs website](#).

Savings Credit

A means-tested benefit for people aged 65 and over which forms part of **Pension Credit**.

Scheme status

An occupational pension scheme may be **open**, **closed**, **frozen** or **winding up**. An **open** scheme admits new members. A **closed** scheme does not admit new members but may continue to receive contributions from or on behalf of existing members who continue to accrue pension rights. In a **frozen** or 'paid up' scheme, benefits continue to be payable to existing members but no new members are admitted, and no further benefits accrue to existing members. Members can make no more contributions but further employer contributions may be made, and may have to be made, for example to correct a deficit. A scheme that is **winding up** is in the process of termination, either by buying annuities for the beneficiaries or by transferring assets and liabilities to another scheme or to the **Pension Protection Fund**.

Seasonally adjusted

A statistical technique that attempts to remove the influence of regular seasonal effects from monthly or quarterly economic statistics, such as the rise in the labour force in the summer due to school leavers.

Second tier

See **tier**.

Sectionalised scheme

A term defining a scheme that has two or more distinct groups of members, such as a scheme with a **defined contribution** section for new entrants and a closed **defined benefit** section. Sections need not be differentiated by benefit type, however, only by any form of barrier preventing members of one section from moving into the other. Sectionalisation can occur when different benefit levels and/or types are offered to members due to factors including tenure, seniority and contract status. It can also result from mergers and acquisitions.

Securities

A term describing both debt and equity instruments, such as bonds and shares. **Corporate securities** are issued by the private sector, while **public sector securities** are issued by central or local government. The most common **government securities** are central government bonds, referred to as **Gilts**.

Self-administered pension fund

A pension fund in which the assets of the scheme are invested by the trustees or by an internal or external investment manager, rather than through an insurance policy with an insurance company. Those self-administered pension funds where the assets are managed externally by an insurance company are known as **insurance-managed pension funds**.

Self-Invested Personal Pension Plan (SIPP)

A **personal pension** in which the policy holder rather than the pension company chooses the investments.

Share

See **equity**.

Socio-economic group

In official statistics and surveys the **National Statistics Socio-economic Classification** (NS-SEC) is used to provide an indication of a person's socio-economic group.

Special contributions

Special contributions are payments made by employers, over and above normal contributions, to reduce funding deficits or to meet additional costs as required by the scheme rules.

Stakeholder pension

Available since 2001, a flexible, portable, personal pension arrangement (provided by insurance companies) with capped management charges, that must meet the conditions set out in the Welfare Reform and Pensions Act 1999 and be registered with **The Pensions Regulator**. They can be taken out by an individual (see **Individual personal** or **Stakeholder pension**) or facilitated by an employer (see **Group stakeholder pension**).

Stakeholder pension price cap

This is the maximum permitted **Annual Management Charge** (AMC) for stakeholder pensions, currently 1.5% for the first ten years of the policy and 1% thereafter.

Standard Industrial Classification (SIC)

The classificatory system used in official statistics to place business establishments and other statistical units into the area of industry in which they are engaged. See: the [Office for National Statistics website](#).

Standard Occupational Classification (SOC)

The classificatory system used in official statistics to place individuals into occupational groups. See the [Office for National Statistics website](#).

State Earnings-Related Pension Scheme (SERPS)

The forerunner of the **State Second Pension**, which replaced SERPS on 6 April 2002. It provided an earnings-related **additional state pension** based on **National Insurance** contributions. See also: **Contracting out** and **Flat-rate state pension**.

State Pension Age (SPA)

The age at which an individual can claim a state pension (although people can choose to defer the receipt of their state pension beyond this age). At present, SPA is 65 for men. SPA for women was 60 until 5 April 2010, but began to increase from 6 April 2010. Further changes occurred under the Pensions Acts 2007 and 2011 which mean women's SPA will be 65 by November 2018 and SPA for both men and women will increase to 66 by 2020. Current legislation increases SPA to 67 by 2036 and to 68 by 2046. The Pensions Bill 2013/14 plans to bring forward the increases so that SPA will be 67 by 2028. See also: [SPA calculator](#).

State Second Pension (S2P)

The successor, from 6 April 2002, to the **State Earnings-Related Pension Scheme** (SERPS). It currently provides an earnings-related **additional state pension** based on **National Insurance** contributions. See also: **Flat-rate State Pension**

Statutory Funding Objective

The Statutory funding objective (SFO) requires that a **defined benefit occupational** pension scheme must have sufficient assets to cover its technical provisions, which can be thought of as the amount of money that it will be liable for in the future. If a scheme does not meet the SFO, its trustees must agree a recovery plan.

Superannuation

Another term used for pension, particularly before the 1990s.

Support ratio

See **dependency ratio**.

Tax Exempt Special Savings Account (TESSA)

A five-year tax-free savings account with a bank or building society, introduced by the Government in 1991 and terminated in 1999.

Tax-free lump sum

Since **A-day** it has been possible for most people to take a tax-free sum of up to 25% of the value of their pension entitlement when they first take their pension.

Tax relief on pension contributions

Reductions in taxation in respect of pension contributions. For approved occupational pension schemes, tax relief is given at source; that is, contributions are deducted from the member's pay before earnings are calculated for tax. For personal pensions, contributions are paid net of the basic rate of tax. Pension providers recover tax at the basic rate from HM Revenue and Customs with the contributor recovering any higher rate tax through their self-assessment return.

The Pensions Regulator (TPR)

The regulatory body for workplace pension schemes (occupational pension schemes, stakeholder pension schemes and certain personal pension schemes) in the UK, which was created under the Pensions Act 2004. TPR replaced the **Occupational Pensions Regulatory Authority** (OPRA) in 2005.

Tier

In order to allow international comparisons of pension systems, pension provision is categorised into 'tiers'. The following definitions are generally used for tiers as they apply to the UK pensions system. The **first tier** consists of the **Basic State Pension** and means-tested benefits. The **second tier** consists of the **additional state pension** and all occupational and personal pensions. In the UK, it is mandatory for employees to make second-tier provision for earnings that fall between a given upper and lower limit. The self-employed are not eligible to join the **additional state pension** and their second-tier provision is generally restricted to personal pensions. The **third tier** consists of **Additional Voluntary Contributions** and some personal pensions held in addition to second tier provision.

Transfer payment

A payment made from one pension scheme to another in lieu of benefits that have accrued to a transferring member, to enable the receiving scheme to provide alternative benefits.

Trust-based pensions

Occupational pension schemes in the private sector are also known as trust-based workplace pension schemes. They are set up under trust law by one or more employers for the benefit of their employees.

Underpin

See **hybrid scheme**.

Unemployed

The International Labour Organisation (ILO) defines unemployed people as those who (1) are without a job, want a job, have actively sought work in the last four weeks and are available to start work in the next two weeks, or (2) are out of work, have found a job and are waiting to start it in the next two weeks.

Unfunded scheme

A **defined benefit** scheme, usually in the public sector, in which liabilities are not underpinned by a corresponding fund or funds. Contributions made by or on behalf of active members are used to make payments to pensioner members (see also: **Pay As You Go**).

Unit trusts

A collective investment fund in which new units are created when a new investor joins the fund and are cashed in when an investor leaves.

Unquoted shares

See **quoted shares**.

Unsecured pension (USP)

A form of **income drawdown**. A USP allows a pension scheme member to continue to invest their pension fund while drawing a limited income.

Upper Earnings Limit (UEL)

The upper limit on earnings for the purposes of calculating entitlement to **State Second Pension**. Also the upper limit for most employee **National Insurance** contributions.

Upper Earnings Threshold (UET)

An earnings threshold below the **Upper Earnings Limit**, which affects the accrual of **State Second Pension**.

Weighted average

A weighted average is used when averaging two or more values that relate to different numbers of cases. For example, if 10 people earn an average of £15,000 a year and 90 people earn £20,000 a year, the average earnings of the group of 100 people is not the simple average of £15,000 and £20,000, which is £17,500. The weighted average of earnings must be calculated, by multiplying each value by the number of people to whom it applies, summing the multiplied values, and dividing the sum by the total number of cases.

Winding up

See **scheme status**.

Working age population

Working age is generally defined as 16 to **State Pension Age**. In view of the complexities of reporting on the basis of a changing **State Pension Age**, the Office for National Statistics is now reporting headline rates for **employment** for the 16 to 64 age group.

Workplace pension

A workplace pension is a pension which is provided or facilitated via a workplace, principally for employees. It

includes both occupational pension schemes and all forms of group personal and group stakeholder pensions.