Jargon Buster – An explanation of some of the common words and phrases used in UK Pensions. We have also included some new terms you might see used following the Government's Pension Reform from April 2015.

Accrual rate

A term that could appear in your pension statement it means the proportion of your pensionable earnings you will receive from your final salary scheme(defined benefit scheme) for each year of service- often expressed as 1/60th or 1/80th i.e. for an individual was has been a member of a scheme with a 1/60th accrual rate for 30 years at retirement their final benefit will be 30/60ths i.e. 50% of their final pensionable earnings as defined in the scheme Rules.

Annual Allowance

The annual allowance is a limit to the total amount of contributions that can be paid to defined contribution pension schemes and the total amount of benefits that you can build up in defined benefit pension scheme each year, for tax relief purposes. The annual allowance is currently capped at £40,000. This will reduce to £4,000 once you take money from any pension schemes you have other than if you only take your tax-free cash amount, take your money under the small pension pot rules or if you continue capped income drawdown if it's available on your plan.

Where the total contributions exceed the Annual Allowance in a given tax year, unused allowances from up to three previous tax years may be available. For this purpose the Annual Allowance for each of the three previous tax years is assumed to be £40,000 for the tax year 2015/2016 and 2014/15 and £50,000 for the tax year 2013/2014. You must have been a member of a UK Registered Pension Scheme in the current tax year and in the tax years you wish to use the unused allowance from. Once your Annual Allowance is reduced to £4,000, you will not be able to use any allowances from previous tax years.

The Annual Allowance will not apply in the tax year in which you die or if you take your benefits because of serious ill health.

The annual allowance applies across all of the schemes you belong to, it's not a 'per scheme' limit and includes all of the contributions that you or your employer pay or anyone else who pays on your behalf.

Annuitant

The individual who receives the income from an annuity.

Annuity

An annuity is a financial product that allows you to convert your pension savings into a regular income that will last you for the rest of your life.

BACS
Bankers Automated Clearing System - a system for sending money electronically between two banks.

Beneficiary
A person who benefits from a will, a trust, a life insurance policy or death benefits from an annuity.

Capped drawdown
A type of income drawdown pension arrangement that has limits placed upon it by the government as to the maximum level of income that can be taken from it. It is now only available to those who were already taking income drawdown before 06 April 2015. However, with effect from 6 April 2015 a new type of drawdown arrangement has been made available called 'Flexi-access drawdown' where these limits will no longer apply to new drawdown cases.

CHAPS
Clearing House Automated Payments System - a form of electronic payment transfer between two banks on the same day.

Consumer Price Index (CPI)
A measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. The CPI is calculated by taking price changes for each item in the predetermined basket of goods and averaging them; the goods are weighted according to their importance.

Contracting out
Employees and their employers were given the option to opt out of the State Second Pension (formerly the State Earnings Related Pension Scheme) in exchange for lower National Insurance contributions (and higher pension contributions) or a rebate into your pension. From 6th April 2012, this is only available only to Defined Benefit (Final Salary) schemes.

Conventional annuity
A conventional annuity is an annuity purchased with the proceeds of a pension plan, which pays a guaranteed, regular income for life. The income payable from this type of annuity is not subject to the performance of investments.

Data Protection Act
The Data Protection Act 1998 sets out rules for processing personal information relating to living individuals. It applies to some paper records as well as those held in electronic form. The Act gives individuals certain rights. It also imposes obligations on those who record and use personal information to be open about how that information is used and requires them to follow the eight data protection principles, whereby data must be:

- processed fairly and lawfully and only if certain conditions are met;
- obtained for specified and lawful purposes;
- adequate, relevant and not excessive;
- accurate and where necessary kept up-to-date;
- not kept for longer than necessary;
- processed in accordance with an individual's rights;
- kept in a secure manner;
- not transferred outside of the European Economic Area without adequate protection.

Defined benefit pension (also known as a final salary scheme)
A defined benefit pension scheme - sometimes called a final salary pension scheme - is one that promises to pay out an income based on how much you earn when you retire.

Unlike defined contribution (DC) pensions, the amount you'll get at retirement is guaranteed, and it will be paid directly to you – you won't have to use your pension pot to purchase an annuity.

Defined contribution pension (also known as a money purchase scheme)
With a defined contribution pension you build up a pot of money that you use to provide an income in retirement. Unlike defined benefit schemes, which promise a specific income, the income you might get from a defined contribution scheme depends on factors including the
amount you pay in and the fund's investment performance and the charges made for running the scheme.

Dependant
Someone who is financially dependent on you, typically a partner. Annuity providers often require proof of this in the form of joint payments or bank accounts.

Dependant's pension annuity
An option when buying an annuity that means, in the event of death, your annuity income may continue to be paid to a surviving spouse, civil partner, or dependant.

Drawdown pension
A type of retirement income product that allows you to draw an income directly from your pension fund. Unless invested only in cash accounts (e.g. our Cash Retirement Account) income levels are not guaranteed and your fund could rise or fall dependent on the performance of your investments.

Earmarking order
As part of the division of assets following a divorce or dissolution of a civil partnership, an earmarking order allows a percentage of one individuals pension income to be paid to the other party, whilst still remaining in the name of the member of the scheme.

Enhanced annuity
An enhanced annuity is an annuity that pays a higher income to a person if aspects of their lifestyle (such as smoking and drinking alcohol) or medical history may shorten life expectancy.

Escalation / inflation linking
This describes the way in which pension or annuity income can increase each year - you can choose to have no increase (a level annuity) or increase your annuity each year at a fixed rate (say 2% per year) or in line with the change in a measure of inflation, such as the Retail Prices Index (RPI).

FCA
The Financial Conduct Authority - the UK's financial regulator set up by the government but independent from it to regulate financial services and protect consumer rights. This means they set the standards that financial services firms have to meet and take action if they fall short.

Final salary scheme
Also known as a defined benefit scheme. With this type of pension, the amount of retirement income an employee gets is subject to criteria known in advance. The amount of income you get is based on the number of years you have been a member of the scheme and your final pensionable salary.

Financial adviser
An authorised and regulated professional who provides financial advice to meet a client's needs and objectives. In doing so they will offer the most suitable and competitive product from the range of providers available to them. The advice will then be presented in writing and must clarify the associated risks and costs.

Fixed term annuity (FTA)
A drawdown arrangement that offers a guaranteed income for a fixed term and a guaranteed maturity amount at the end of the term.

Flexi-Access Income Drawdown
A type of income drawdown pension arrangement that has no limits placed upon it by the government as to the maximum level of income that can be taken from it. It was introduced on 6 April 2015 for new income drawdown cases. When the first payment of income is made, the reduced Annual Allowance of £4,000 will apply.

Gilt
A gilt is a bond issued by the UK government they guarantee to pay the holder a fixed cash payment (or coupon) every six months until the bond matures, at which point the holder receives the final coupon payment and get his original investment back.

Gilt yield
The level of interest payable to investors holding government bonds.

Government limits
The Government Actuary's Department (GAD) currently limits the maximum amount of income that can be taken from drawdown arrangements. This was to try and make sure that those who invest in these plans leave enough in their fund to support a reasonable level of income for the rest of their life. From 6 April 2015 these limits are removed for new drawdown arrangements.

Guarantee period
Annuity income is payable for as long as the annuity purchaser lives. If they die soon after purchasing an annuity, they lose the remaining fund. They can however choose a guarantee period (typically 5 or 10 years), which means if they die within that guarantee period, the annuity will continue to be paid for the remainder of that guaranteed period. Annuity purchasers can nominate anyone to receive the income from their guarantee period, either directly from the annuity provider or through their will.

Guaranteed maturity amount (sometimes called a Protected maturity amount)
The lump sum you receive at the end of the term of a Fixed Term Annuity. You can reinvest this money into any appropriate pension product of your choice.

Guaranteed Minimum Pensions (GMP)
This is the part of pension benefit built up in defined benefit schemes, which relates to contracting out between 1978 and 1997 and is roughly equivalent to the amount of State Earnings Related Pension Scheme (SERPS) which would have been earned for that period. This is the minimum pension payable under the scheme. As GMP is a replacement of state benefits, certain restrictions apply to the income you receive from it.

HMRC
The merger of the Inland Revenue and Her Majesty's Customs and Excise formed Her Majesty's Revenue & Customs.

Immediate vesting pension (IVP)
There are two different types of immediate vesting pensions: 1) A pension fund is transferred to an annuity provider's pension plan, where it is immediately converted into an annuity. The annuity follows the rules of the annuity provider's pension plan and any Pension Commencement Lump Sum (PCLS) is paid by the annuity provider. 2) An individual pays a lump sum of their savings outside of pensions into an annuity provider's pension plan, tax relief is added and the total is then converted into an annuity. The amount you can pay into this type of IVP is dependent on your earnings and relevant contribution limits.

Impaired annuity
An impaired annuity pays a higher income than a standard or conventional annuity for those who have a lower life expectancy due to or existing medical conditions.

In advance / in arrears
You can choose whether your annuity payments start as soon as your annuity has been set up (in advance) or at the end of your chosen payment frequency (in arrears)

Income drawdown
A type of retirement income product that allows you to draw an income directly from your pension fund.

Inflation
Inflation is the average increase in the price of goods and services.

Investment linked annuity
The income payments from this type of annuity may increase or decrease in value as they are linked to the performance of an investment fund(s). Income from an investment-linked annuity do have some guarantees attached and these will vary dependent on the provider. If investment returns are good, your annuity income payments may rise. If investment returns are poor, then your annuity income payments may fall, so they are not risk free. The underlying investment funds may be with-profits or unit-linked.

Joint life annuity (also called dependant's pension / annuity)
In the event of your death, your annuity income can continue to be paid to a surviving spouse, civil partner or dependant if you purchased a joint life annuity.

Key features document
Important information about your investment set out in a standard way, so you can compare service, product features and costs.

Lifetime allowance
The Lifetime Allowance is the maximum value of pension savings an individual is allowed to draw as a pension income without incurring tax penalties. The amount is set by the government and is £1m for the tax year 2017-18, increasing to £1.03m for the tax year 2018-19. Whenever you draw benefits from a pension scheme, these are tested against the lifetime allowance and your pension provider will tell you the percentage of the lifetime allowance you have used.

Lifetime annuity
A lifetime annuity is an annuity payable for life purchased with the funds from a pension scheme.

Money purchase pension
With a money purchase pension you build up a pot of money that you use to provide an income in retirement. Unlike defined benefit schemes, which promise a specific income, the income you might get from a defined contribution scheme depends on factors including the amount you pay in and the fund’s investment performance and the charges made for running the scheme.

Money purchase annual allowance (MPAA)
If you have taken flexible benefits which include withdrawals, such as an 'Uncrystallised Funds Pension Lump Sum (UFPLS)' or flex-access drawdown with income, and you want to continue paying contributions to a defined contribution pension scheme, you will have a reduced annual allowance of £4,000 towards your defined contribution benefits. The reduced allowance will apply if you have withdrawn more than the 25% tax free pension commencement lump sum (PCLS). The reduced amount is known as the 'money purchase annual allowance (MPAA) ,and includes both your own contribution and any other contribution paid on your behalf, such as an employer or a third party. You cannot bring forward any unused annual allowances from the previous three tax years, to warrant a higher contribution of £4,000 towards your defined contribution benefits.

The money purchase annual allowance will only start to apply from the day after you have taken flexible benefits and so any previous savings are not affected.

Normal retirement date
This is the date at which your pension scheme expects you to retire, although there is no longer any compulsory retirement age.

Occupational pension
A pension provided by an employer(s). It can be either a defined benefit pension or a defined contribution pension.

Open market option
This option enables you to search for the best annuity rate available in the whole market not just your current pension provider.

Opting out
Is when an employee leaves an occupational pension scheme or chooses not to join.

Overlap
Overlap is only relevant if you choose both a joint life option and a guarantee period with your pension annuity. If you die within the guarantee period, the term with overlap means that your surviving spouse's, civil partner's or dependant's annuity income payments will start immediately and will be paid in addition to the annuity income payment due in the remaining guarantee period. Without overlap means that your surviving spouse's, civil partner's or dependant's annuity income payments will not start until after the guarantee period.

Payment frequency
You can choose to have your annuity income paid monthly, quarterly, half-yearly or yearly.

Pensionable salary
Your pensionable salary is very important as your pension benefits will depend upon it. The calculations of pensionable salary can be very complex and can involve factors such as maximum amounts to be taken into account, or exclusions of certain types of earnings. All employer sponsored pension schemes will have their own definition of what is pensionable salary and schemes will be different to one another.
Pensionable salary only includes those earnings which are listed in the Scheme Rules.

Pension annuity
A pension annuity is a product purchased with the proceeds of a pension plan which pays a guaranteed, regular income for life it is not linked to the performance of investments.

Pension Commencement Lump Sum (PCLS)
You can normally take up to 25% of your pension fund as a lump sum tax-free. This is now known as a Pension Commencement Lump Sum, but may also be referred to as a tax-free lump sum or tax-free cash.

Pension fund
The value of the pension plan that you have built up over the years from your pension contributions, those of your employer, tax relief that has been added to contributions and any national insurance contribution rebates.

Pension input period(PIP)
A pension input period normally lasts for one year, but doesn't necessarily cover the same dates as a tax year. Bear in mind that the pension input period is specific to each pension arrangement, so if you have more than one pension, you may have different PIPs for each.

Pension sharing order
As part of a division of assets following a divorce or dissolution of a civil partnership, a pension sharing order allows a percentage of one party's pension benefits to be transferred to the other party. The benefit transferred is known as a pension credit

Personal Quotation
This is a quote tailored to your personal situation - showing you the potential costs and benefits of a financial product.

Personal pension
Within a personal pension, you build up a pension fund by investing your and / or your employer's pension contributions with an insurance company. Your contributions build up to provide you with an individual pot of money with which to secure a pension income.

PRA
The Prudential Regulation Authority (PRA) is responsible for the prudential supervision and regulation of banks, building societies, credit unions, insurers and investment firms.

Proportion
Proportion is only relevant if you choose to receive your annuity income payments in arrears. If you choose with proportion, a final proportionate payment will be made to cover the period between your last payment and the date of your death. If you choose without proportion, your final annuity income payment will be the last normal payment before you die.

Protected rights
This is the part of a defined contribution pension fund which relates to contracting out of the State Earnings Related Pension Scheme (SERPS) and State Second Pension (S2P). Protected rights cease to exist from 06 April 2012. Former protected rights will be treated, after 06 April 2012, in the same way as ordinary pension funds

Purchased life annuity
A type of annuity bought with savings, rather than your pension. It provides you with an income in a similar way to a pension annuity. They are sometimes purchased with money raised through an equity release scheme or using the Pension Commencement Lump Sum (PCLS) from a pension.

Retail Prices Index (RPI)
This is a commonly used measure of inflation, published by the Office for National Statistics. You can link an annuity to this measure so each year your annuity is adjusted to ensure it is kept in line with inflation.

Scheme administrator
The person(s) who is responsible for the day-to-day running of the pension scheme

Small Self Administered Scheme (SSAS)
Small Self Administered Schemes are occupational schemes usually with up to 11 members, generally set up for the controlling directors of a company. SSASs are subject to special rules surrounding investments and the benefits that can be taken from them.

Stakeholder pension
A type of personal pension that has to meet certain standards set by government. They can be taken out by an individual or through an employer.

State Earnings Related Pension Scheme (SERPS)
The State Earnings Related Pension Scheme is an additional State Pension for employees on top of the Basic State Pension. It was launched in 1978 and was replaced by the State Second Pension (S2P) in 2002. The amount payable depends on your National Insurance contributions record.
The Additional State Pension(SERPS and S2P) has been replaced with the new flat-rate pension from 6 April 2016.

State pension age
The state pension age is currently 65 for men and 62 for women. The latter will keep steadily rising every few months and equalise at 65 for men and women in 2018. It will then increase every few months, reaching 66 by 2020. The next planned increase, towards age 67, will start in 2026 and conclude in 2028.

Tax code
A tax code is used to calculate the amount of tax to deduct from your pay or pension. If you have the wrong tax code you could end up paying too much or too little tax. Tax codes are calculated by HMRC and if you think you have the wrong tax code, you should contact HMRC.
this is currently 55%.

Tax year
The tax year starts on 6 April and finishes on 5 April and is split up into 12 monthly periods with each month starting on the 6th and finishing on the 5th of the following month.

Tax free cash
You can normally take up to 25% of your pension fund as a lump sum, which is currently tax free. This is now known as a Pension Commencement Lump Sum (PCLS), but may also be referred to as a tax-free lump sum or tax-free cash.

Trivial commutation (Triviality) and Small Pots

You may be able to take your entire pension as a lump sum, rather than buy an annuity. This applies as long as you're aged at least 55 (or you're retiring at an earlier age due to ill-health) and the value of all your pension benefits falls within the trivial commutation limit of £30,000. Triviality commutation will only apply in respect of defined benefit arrangements.

Small Pots of up to £10,000 each can also be taken as a lump sum (up to three such pots). 25% of each payment is tax free and the rest subject to income tax.

UK registered pension scheme
A pension scheme that has been registered with Her Majesty's Revenue and Customs (HMRC).

Uncrystallised funds pension lump sum – UFPLS

You can take smaller sums of cash from your pension pot (this option is also known as 'Uncrystallised Fund Pension Lump Sum' (UFPLS)), you take the tax-free amount as part of each separate withdrawal. 25% of each cash amount you take out is tax free but the remaining 75% is taxable.

Value protection
Value protection allows a lump sum, after any tax that may be due, to be paid on the death of the annuitant.

IMPORTANT NOTE

This brief guide is based on our understanding of current legislation and HMRC practice and guidance as at 6 April 2015. It is a summary and is not intended to cover every situation. You should not take, or refrain from taking, any action based on this information. Tax treatment can change and depends upon your circumstances. Please remember that taking money out of a pension will impact your standard of living later in retirement. This information is not advice and if you are unsure about the suitability of an investment, you should seek Independent Financial Advice.

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