

The Trustee toolkit downloadable

Glossary

This is a guide to help people understand pensions terminology generally. The Pensions Regulator also issues technical and practitioner guidance which contain glossaries of the technical and legal terms used in them. If there is any difference between the terms used here and similar terms explained in those glossaries, the glossary definitions attached to the relevant guidance should be used.

Term

Definition

A

absolute return	An investment policy/strategy that aims to give the same return regardless of market conditions. The return should not rise or fall in line with UK equities, but will often offer a fixed percentage above bank rates, inflation or other objective measure. See also: targeted return.
accrual rate	The rate at which a member builds up pension benefits in a defined benefit pension scheme.
accrued benefits	The benefits for service already completed. See also: accrued rights.
accrued rights	The rights related to service already completed to which a member is entitled under an occupational pension scheme. The value of accrued rights for active members may be calculated on the basis of current salary or, alternatively, may include an allowance for future salary increases.
active fund management	The management of assets (eg equities, gilts) in which the skill of the fund manager is used to select particular stocks at particular times, with the aim of achieving higher than average growth for the assets in question. See also: passive fund management.
active member	A member of an occupational pension scheme who is at present accruing benefits under that scheme in respect of current service.
actuarial report	An actuarial report is the actuary's estimate of changes to the funding position of the scheme since the last actuarial valuation. Unlike the actuarial valuation it will not usually be based on such detailed member-by-member calculations.
actuarial valuation	An actuarial valuation is a comparison by the actuary of the value placed on scheme assets with the technical provisions and an assessment of any future contribution requirement. Calculations of the technical provisions will usually be based on full member-by-member data. See also: actuary.

Term	Definition
actuary	A professional adviser able to conduct an actuarial valuation, and to advise on policy issues eg transfer values, the drawing up of the statement of funding principles, and the choice of appropriate assumptions. DB schemes are required to have a named scheme actuary appointed by the trustees or managers of the occupational pension scheme.
Additional Voluntary Contribution	Additional voluntary contributions (AVC) over and above a member's normal contributions if any, which the member elects to pay to an occupational pension scheme in order to secure additional benefits. A legal requirement until 2006, but still offered by many schemes. See also: Free Standing Additional Voluntary Contribution.
administration	The day-to-day running of a pension scheme, eg collection of contributions, payment of benefits, record-keeping. The position in which an insolvent company may find itself if an administrator has been appointed by a court for the purpose of administering the payment of debts by the company. An administrator is likely to be appointed where there is a realistic chance of selling a company as a going concern.
administrative receivership	The position in which an insolvent company may find itself when debenture holders, eg banks, have appointed an Administrative Receiver (often called the Receiver) to realise a company's assets and use the proceeds to pay any preferential creditors (eg HMRC, the NISPI) and the debenture holders themselves.
advisers	Persons or companies appointed by the trustee board to give advice. The trustee board is legally required to appoint certain advisers. See also: actuary; benefits consultant; communications adviser; custodian; independent trustee; insurance broker; lawyer; pensions manager.
alpha	Returns on a portfolio which exceed those indicated by movements in the index for the asset class in question. Usually alpha is achieved by appointing fund managers with specific skills in selecting the asset in question which will allow for these excess returns. See also: beta.

Term	Definition
alternative assets	These are asset classes that have not traditionally been used by pension schemes. Examples include active currency, commodities, private equity, infrastructure and hedge funds. Many alternative asset classes target absolute returns rather than relative returns, and the manager typically charges much higher fees than for 'traditional' asset classes such as equities and bonds.
annual allowance	The maximum amount of pension savings that can be built up in any one tax year before liability to an annual allowance charge, which is a tax charge levied by HMRC.
annual management charge	An investment manager is generally remunerated through receipt of an Annual Management Charge (AMC). The AMC is normally a percentage of the assets, but other pricing options can be used, such as a fixed fee, although this is relatively rare.
annuity	A series of payments, which may be subject to increases, made at stated intervals until the end of the agreed period or the life of the annuitant. This is often achieved by means of an insurance policy underpinned by guarantees.
annuity conversion risk	The risk that the amount of pension a member can buy is adversely affected by changes in annuity rates or investment markets. Also referred to as pension conversion risk.
approved scheme	A historic term used by HMRC to describe those schemes meeting the requirements which entitle them to the tax privileges associated with pension funding. Now known as registered schemes.
Articles of Association	This document lists the regulations of a company. It includes the purposes of the company and the way it will be run. It should be sent, with the Memorandum of association, to the Registrar of Companies when the company is formed. Companies include trust companies set up for the purpose of running a pension scheme.
assessment date	The date of the employer's insolvency, and the date on which the Pension Protection Fund assessment period starts. See also: assessment period.

Term	Definition
assessment period	This starts on the assessment date and is the period of time during which the Pension Protection Fund works with the scheme trustees to assess whether it can assume responsibility for the scheme. The period lasts a minimum of a year. See also: assessment date.
assets	Items such as equities, gilts, property and cash.
assets under management	The amount of investor money that an investment firm manages, either in total or in a particular asset class eg UK equity.
Association of British Insurers	The Association of British Insurers (ABI) represents the collective interests of the UK's insurance industry, including all the major pension providers. On its website the ABI sets out its role as follows: "The association speaks out on issues of common interest; helps to inform and participate in debates on public policy issues; and also acts as an advocate for high standards of customer service in the insurance industry." It also provides an advisory service on corporate governance to those of its members who are active shareholders.
augmentation	The provision of additional benefits offered to members of a DB scheme, normally where the cost is borne by the scheme and/or the employer.

back end loading	An arrangement between trustees and employer allowing the employer to make good a deficit by paying the extra contributions needed in unequal instalments. The early instalments will be smaller than the later ones. This expression is used in relation to the recovery plan.
Barber judgement	The European Court judgement which established that men and women should be treated equally in relation to their pensions. The judgement was handed down on 17 May 1990 and this became the reference date for all changes to scheme benefit rules to comply with the ruling. Despite this, state benefits remain unequal and will remain so for many years to come and this creates difficulties for schemes with GMPs in relation to equalisation.

Term	Definition
Barber window	The time period which elapsed between the Barber judgement in the European Court (17 May 1990) and the date on which the scheme complied (or is due to comply) with the ruling that scheme benefits should be equalised between men and women.
base rate	This is the interest rate at which the Bank of England lends money overnight to other banks in return for high quality collateral. The Bank of England moderates the supply of money to banks, and hence the economy, by raising or lowering the base rate. Short term interest rates for high quality borrowers typically remain close to this rate.
basic state pension	The flat rate (not earnings-related) state pension paid to all who have met the minimum NI contribution requirements, their spouses, subject to certain conditions, and widow(er)s.
basis point	A basis point is one hundredth of one percent (ie 0.01%). For example, 0.30% is often described as 30 basis points.
bear market	A market in which equity prices are falling and sellers are more predominant than buyers. It is the opposite of a bull market, in which prices are rising and there are more buyers than sellers.
benchmark	A measure against which fund management performance is to be judged. A series of appropriate indices is chosen which reflects the requirements of the trustees. Usually a target is set which requires an agreed percentage better performance from the fund manager than the benchmark.
beneficiary	A member of a pension scheme who is entitled to a benefit from the scheme or a dependant who will become entitled on the death of the member.
benefits	Any payments made to a beneficiary, including tax free lump sums, pension payments and death benefits.
benefits consultant	Benefits consultants advise on remuneration and pension benefits. They may be retained by the employer or the trustees or both. They may be scheme actuaries.

Term	Definition
benefit schedule	A schedule prepared by the administrators listing all scheme members (including dependants in receipt of benefits), and the benefits to which they are entitled. Usually drawn up when the administration is changing hands (eg when a scheme is being transferred to the PPF).
benefits statement	'A statement or estimate of benefits payable in respect of an individual's membership of a pension scheme, eg annually during employment, on retirement, in the event of wind-up.
beta	Returns on a portfolio which can be attributed to movements in the market as a whole, rather than the skills of a particular fund manager. Usually achieved by holding a portfolio which exactly mirrors a particular index, eg the FTSE 350. See also: alpha.
bid price	This is the price at which an investor can sell an asset. See also: offer price.
bid to offer spread	This is the difference between the higher offer price that an investor pays to buy an asset and the lower bid price an investor receives when selling an asset. The wider the spread, the higher the cost of buying and selling a given investment. The most liquid investments, such as government bonds, have low bid to offer spreads whereas less liquid investments, such as property, have high bid to offer spreads. Other factors, such as taxes and commissions, also affect the size of the bid to offer spread.
bonds	Loans made to an issuer (often the government or a company) which undertakes to repay the loan at an agreed later date. The term refers generically to corporate bonds or government bonds (gilts). However, in common parlance, the term bond is more likely to be used with reference to a corporate bond, while the term gilt refers exclusively to government investments, including index-linked gilts.
BR19	The form submitted by an individual to the Department for Work and Pensions requesting a statement, estimating their state pension entitlement. It must be submitted at least 30 days before pension age.

Term**Definition**

breach of trust

Any act or omission on the part of the trustee that is inconsistent with the terms of the trust agreement or the law of trusts.

Bridge case

The Bridge case considered whether certain kinds of benefits satisfy the statutory definition of 'money purchase benefits' as defined in section 181 of the Pension Schemes Act 1993. The Bridge case and the amendment to the statutory definition of 'money purchase benefits' made by the Pension Schemes Act 1993 are important because the definition of 'money purchase benefits' is a fundamental concept of pensions law. Broadly, the regulatory framework that protects members of occupational pension schemes is built on the understanding that 'money purchase benefits' cannot develop a funding deficit. As a result, schemes that provide money purchase benefits only are not subject to a regulatory regime in respect of funding of accrued rights in the same way as occupational defined benefit schemes, nor are the members of such schemes protected by the Pension Protection Fund (PPF). The definition of 'money purchase benefits' is also relevant because such benefits are excluded from the statutory priority order which applies where a pension scheme is wound up with insufficient assets to meet all benefits in full.

bull market

A market in which equity prices are rising and buyers are more predominant than sellers. It is the opposite of a bear market, in which prices are falling and there are more sellers than buyers.

buy-in

The purchase of a bulk (ie one covering many individuals) annuity contract with an insurance company. This allows trustees to reduce their scheme's risk by acquiring an asset (the annuity contract) whose cash flows are designed to meet, ie 'match' a specified set of benefit payments under the pension scheme. The contract is held by the trustees and responsibility for the benefit payments remains with the trustees.

Term**Definition**

buy-out

The purchase of bulk (ie one covering many individuals) annuity contract from an insurance company. The insurer then becomes responsible for meeting pension benefits due to scheme members (effected ultimately by allocating to each scheme member an individual annuity contract). Following a full buy-out (ie one covering all scheme members) and having discharged all of the trustees' liabilities, the pension scheme would normally be wound up.

buy-out measure

This is the cost estimated by the scheme actuary of buying annuities from an insurance company for each of the scheme members. Also known as 'section 75' measure.

C

call option

A contract with a bank which is paid for up front and which will allow the investor to buy certain specified assets at an agreed price at some time in the future, even if the market value of those assets at that time is more than that agreed price.

capital markets

The markets in which capital is raised initially through the issue of shares (equities) and loans (bonds) and then subsequently traded. The stock market (dealing with the trading of equities) forms a significant, but by no means only, part of the capital market.

capital risk

The risk that an investor may lose all or part of the amount invested.

cash balance scheme

A type of scheme in which a percentage of salary is set aside each year for each member. The employer undertakes to ensure that each annual contribution will grow by a specified amount which is linked to prevailing interest rates. At retirement, the member's minimum accumulated fund will be determined by the specified minimum rate of growth for each contribution. It may bear no relation to levels of pay and it may be considerably higher than the minimum, if investments have been successful.

Term

Definition

cash flow

The amount of actual money being received and spent. In the case of a pension scheme, the amount of money being received into the scheme in contributions and investment returns and the amount of money being paid out by the scheme. In common parlance, in the case of DB schemes, projected cash flows usually refer to cash required in the future by the trustees to pay for pension liabilities when they fall due.

chair's statement

A document that must be produced by certain DC schemes and DC sections of hybrid schemes that sets out how specific legislative governance standards have been met (see the Occupational Pension Schemes (Charges and Governance) Regulations 2015). It must also contain the statement of investment principles for the default arrangement. The chair's statement must be signed by the chair of trustees on behalf of the trustees and be included in the scheme's annual report. Trustees must declare whether they have complied with the requirement to produce this statement when they complete their scheme return. Trustees that have not complied with the requirement to produce the chair's statement will be fined between £500 and £2,000.

closed scheme

A pension scheme which does not admit new members. Contributions may or may not continue and benefits may or may not be provided for future service.

codes of practice

The Pensions Regulator's codes of practice give practical information about how trustees can comply with legal requirements, and set out the standards of conduct and practice expected.

commodities

The asset class comprising a range of physical goods. Examples include foodstuffs such as wheat, metals such as copper as well as energy sources such as oil.

Companies House

An executive agency of the Department for Business, Energy and Industrial Strategy (BEIS), which examines and stores company information delivered under the Companies Act and related legislation and makes this information available to the public on request. This includes annual financial statements from every limited company, whether or not it is quoted on any exchange.

Term	Definition
compromise agreement	A legal agreement, the effect of which is to reduce the amount of the debt due from a sponsoring employer to a scheme under section 75 of the Pensions Act 1995. Where a compromise agreement has been reached, a scheme will not usually be eligible for PPF compensation, unless the PPF agreed to the compromise at the time it was made. See also: recoverable debt.
conflict of interest	A conflict, for example, between: ▶ a trustee's interest as an employee, eg financial director, and his or her duty as a trustee ▶ the duty of a professional to the employer as well as to the trustees, where they are acting for both
Consumer Prices Index	Consumer prices index (CPI) is an index of UK price inflation. It is the UK's version of the Harmonised Index of Consumer Prices (HICP), which is a Europe-wide standardised measure of inflation. See also: Retail Prices Index (RPI).
contingent assets	Assets which are owned by the employer and which may be offered as security to the trustees of a pension scheme in deficit, where the employer covenant is weak and where the contribution required is not acceptable to the employer.
contracted in	Commonly used to describe a scheme which is not contracted out of the State Second Pension (previously, SERPS), ie where the members continue to be entitled to State Second Pension. See also: contracted out.
contracted out	Commonly used to describe a scheme which provides benefits in place of the State Second Pension (previously SERPS). Currently these benefits from the scheme are paid for by means of a rebate of the relevant NI contributions. See also: contracted in, contracting out certificate.
contracting out certificate	The certificate issued by HMRC, in respect of an occupational pension scheme which satisfies the conditions for contracting out. See also: contracted out.

Term	Definition
contribution holiday	A period during which normal employer contributions are temporarily suspended, usually when the fund is in surplus. Very exceptionally, members' regular contributions could also be suspended.
contributory scheme	A scheme which requires contributions from active members (even if such contributions are temporarily suspended during a contribution holiday).
corporate bonds	A bond with a fixed interest rate issued by a company for a fixed period of time.
corporate governance	The UK Corporate Governance Code sets out standards of good practice in relation to issues such as board composition and development, remuneration, accountability and audit and relations with shareholders. The code was devised and is maintained by the Financial Reporting Council. See also: Listing Rules.
corporate lawyer	A specialist in the legal implications of changes in the ownership of companies or significant changes in corporate structures.
corporate trustee	A company which acts as a trustee. See also: Articles of Association and trust corporation.
coupon	The fixed rate of interest paid at prescribed intervals to the owner of a bond. The value of index-linked gilts increases each year with inflation, which has the effect of increasing the amount of the interest paid.
creditor days	The average number of days a company takes to pay creditors, such as suppliers, having received goods on credit. Creditors will be less willing to wait for payment if they doubt the company's financial strength.
credit risk	Credit risk refers to the risk that someone who owes you money may not repay in full on and on time. In an investment context, it most often describes the risk that interest and capital payments due on a bond may not be paid in full on their due dates.

Term	Definition
current unit method	A method of calculating technical provisions which takes no account of future salary increases which are over and above inflation.
custodian	A financial institution set up as a corporate trustee and independent of the investment management function to store and safeguard a scheme's assets, including the maintenance of accurate records of ownership. It may also collect income, produce tax reclaims and provide other services where required, such as stock lending.
custody of assets	The storing and safekeeping of securities (scheme assets) together with maintenance of accurate records of ownership and the management of those securities, eg the collection of dividends and other activities where required, such as stock lending. See also: custodian; stock lending.

D

DB scheme	Defined benefit scheme. The provision of DB pension benefits involves a promise from an employer to provide an employee (the pension scheme member), or former employee (a deferred pension scheme member), with certain benefits on retirement. Also known as 'final salary' or 'salary-related' scheme.
DC scheme	Defined contribution scheme. A scheme in which a member's benefits are determined by the value of the pension fund at retirement. The fund, in turn, is determined by the contributions paid into it in respect of that member, any investment returns and charges deducted. Also known as 'money purchase' scheme.
data interface file	A schedule of members and their benefits to be provided to the PPF by trustees at the end of the assessment period in a specified format (see PPF website).

Term	Definition
Data Protection Act	The Data Protection Act controls how your personal information is used by organisations, businesses or the government. Everyone who is responsible for using data has to follow strict rules called ‘data protection principles’. They must make sure the information is: ▶ used fairly and lawfully ▶ used for limited, specifically stated purposes ▶ used in a way that is adequate, relevant and not excessive ▶ accurate ▶ kept for no longer than is absolutely necessary ▶ handled according to people’s data protection rights ▶ kept safe and secure ▶ not transferred outside the UK without adequate protection
death in service	Death in service (DIS) is when death occurs while a member of a pension scheme is still employed by the sponsoring employer. Benefits may be payable to dependants.
debt notice	The notice served on the employer by the trustees of a scheme in wind-up, setting out the debt due from the employer to the scheme. The debt is the shortfall between the value of the assets and the liabilities.
decumulation	The process of taking an income from a pension fund, for example by purchasing an annuity with a DC pension pot.
decumulation phase	Typical within a lifestyle strategy within a DC scheme. The period of switching a member’s investment from growth asset into bond-like assets in anticipation of decumulation.
deed of appointment	A deed by which a new trustee is appointed.
default	In the context of corporate bonds a default is a failure on the part of a company to pay interest on a loan, or to be able to repay a loan at full value. Such a failure would normally indicate that the defaulting company was insolvent.

Term	Definition
default arrangement	In the context of a DC pension scheme, a default arrangement is the fund or mix of funds in which contributions will automatically be invested in the absence of any explicit fund choices by that member. Legislation stipulates how trustees can identify a 'default arrangement' in their schemes. The definition of default arrangement used for the governance standards is not the same as that used for charge controls. The definition may also differ from what trustees think of as their scheme's default fund or strategy. Arrangements used to receive additional voluntary contributions may also be affected. You should seek your own advice to understand how your particular scheme will be affected.
default option risk	The risk that the default investment strategy may be inappropriate for a member, or a number of members.
deferred annuity	An insurance policy which guarantees a series of payments, which may be subject to increases and which will start at a specified date after minimum pension age. The payments are made regularly until the death of the policy holder. The policy can be set up to provide benefits for dependants after the death of the policy holder.
deferred member	A member entitled to a deferred pension (sometimes known as 'preserved benefits'). See also: deferred pension.
deferred pension	A benefit relating to the past service of members of an occupational pension scheme who are no longer active members but have not yet accessed their benefits. The benefits are payable from minimum pension age or earlier death.
deficit	The amount by which a scheme's liabilities exceed its assets.
defined accrued benefit method	A method for calculating technical provisions which is the same as the current unit method for most schemes, but which takes into account any departure from expected benefits in the event of the wind-up of the scheme. It is therefore appropriate for schemes considering winding up. See also: current unit method.

Term	Definition
dependant	A person who is financially dependent on a member or pensioner, or was so at the time of death or retirement of the member or pensioner. Scheme rules will define a dependant precisely, eg age at which children cease to be dependants.
de-risking	This typically means reducing exposure to investment risks such as equity risk or interest rate risk, or non-investment risks such as longevity.
derivatives	A generic term to describe a contract for the exchange of an asset at a given price on (or not later than) a given date. They are used when there is a risk that movement in a market between now and that future date could result in loss to the investor. See also: futures, options.
discharge	The distribution of benefits usually by means of annuities. This is the final element of the wind-up process.
discharge notice	Contains information for members about what their benefits will be from the wound up scheme, including: ▶ any departure from expected benefits ▶ any options available to members and the timescale for making a decision
disclosure	The disclosure requirements cover the information, which trustees are obliged to provide, about a scheme and the benefits for individuals. Some of this information must be given to members automatically, and other aspects of it must be provided on request.
discount	Calculate the value of assets expected to be needed today in order to pay benefits in the future.
discount rate	The discount rate is the assumed investment return used in a present value calculation of assets. See also: present value.
diversification	The process of investing in a number of different asset classes, and individual investments within those asset classes, so as to limit exposure to any single source of risk.

Term	Definition
diversified growth fund	Diversified Growth Funds (DGFs) are pooled investment funds that invest in a wide range of asset classes, with the allocations to those asset classes often being managed on an active basis as market conditions change.
dividend	A distribution of profits made by a company to its shareholders, usually half-yearly. The company usually has total discretion as to the size of the dividend and even whether or not to pay a dividend.
downside protection arrangement	This refers to any type of scheme investment that is expected to provide a large positive return at a time when other investments such as equities are providing a large negative return. Used as a typically small part of a scheme's investment strategy, it can reduce the impact of market falls on the overall assets. In more normal market conditions it is likely to provide a small negative annual return, and as such could be considered an insurance arrangement.
dual pricing	Where an investment has two prices – a higher price (offer price) at which investors can buy, and a lower price (bid price) at which investors can sell. See also: bid to offer spread.
duration	This is the measure of the sensitivity of the value of an asset (such as a bond) or a liability (such as pension scheme cash flows) to changes in interest rates. For example, an asset or liability with a duration of 10 will broadly rise (fall) in value by 10% on an immediate 1% fall (rise) in interest rates.
E	
earmarked scheme	A DC scheme where all the benefits are secured by an insurance policy. Under the umbrella of the policy, each member accumulates an individual (earmarked) pension fund.
earmarking	The application of a Court order made when a member of a pension scheme divorces, directing the trustees to pay some or all of the member's benefits to the ex spouse at the time they would otherwise have become payable to the member. Civil partners are treated in the same way.

Term	Definition
effective date	The date at which the liabilities and assets of the scheme are measured for the purposes of a valuation.
emerging markets	These are developing nations such as China, Russia, India and Brazil. Their investment markets are characterised by higher levels of risk and often higher investment returns (than developed markets).
employer covenant	Covenant is the obligation and the ability of the employer to support the scheme and protects against both short-term and long-term risks.
Employer-Nominated Trustee	An employer-ominated trustee (ENT) is a trustee chosen by the sponsoring employer.
equalisation	The modification of benefits accrued after 17 May 1990, so that one sex is treated no less favourably than the other.
equity collar	This is an arrangement put in place in conjunction with an equity portfolio, to place upper and lower limits on the portfolio return over the period the collar is in place. This is done using equity options: one is bought to provide the lower limit, and another is sold to provide the upper limit. Typically, the collar is arranged so that the price of these two options is the same when they are bought/sold. As an example, suppose a scheme has a one year collar with a lower limit of -10% and an upper limit of +7%. If, at the end of the year, equity markets have fallen by 15%, the option bought will pay the excess 5% in to the scheme. If equity markets have risen by 15%, the scheme will have to pay out the excess 8% because of the option sold.
equities	Shares in a company which are bought and sold on a stock exchange. Owning shares makes shareholders part owners of the company in question and usually entitles them to a share of the profits (if any), which are paid as dividends. Equities can be listed or unlisted. Listed equities are shares in a company which are bought and sold on a stock exchange. Unlisted equities (otherwise referred to a private equity) are shares which are not traded on a stock exchange.

Term**Definition**

escrow account

An account opened in the joint names of the employer and trustees (or their respective solicitors) into which money may be paid pending a trigger event typically allowing the trustees to withdraw some or all of the money from the account. An agreement between the employer and the trustees will set out what those trigger events are, and the circumstances in which any outstanding balance in the account is to be returned to the employer (eg on the scheme achieving full funding on the statutory funding basis).

exemption clause

A clause in a trust document which gives trustees a degree of protection in the event of a breach of trust.

exoneration clause

A clause in a trust document which gives trustees a degree of protection in the event of a breach of trust.

expression of wish

A means by which a member can indicate to the trustees a preference as to the recipient of any lump sum death benefit.

external audit

An examination of the financial statements by an individual or firm of accountants appointed by the trustees (the external auditor). The results of the examination are incorporated within the auditor's report.

F

final salary scheme

Defined benefit scheme (DB). The provision of DB pension benefits involves a promise from an employer to provide an employee (the pension scheme member), or former employee (a deferred pension scheme member), with certain benefits at pension age.

final salary underpin

The entitlement of a DC scheme member to a minimum level of salary-related pension if the member's accumulated pension pot is not sufficient to fund it.

financial adviser

Advises individual members about the options that are best for them, and how they should organise their investments. Advises the trustees of small schemes, who are often directors of the sponsoring employer, especially when the scheme is being set up.

Term	Definition
Financial Conduct Authority	The Financial Conduct Authority's (FCA) overall aim is to protect consumers, ensure the financial services industry remains stable and promote healthy competition between financial services providers. In relation to occupational pension schemes, the FCA regulates: ▶ the marketing and sale of individual pension contracts ▶ personal advice on investment matters ▶ the training and competence of investment managers ▶ the management of investment funds
Financial Services Compensation Scheme	The Financial Services Compensation Scheme (FSCS) is an independent body, established under the Financial Services and Markets Act 2000 as the UK's statutory compensation fund of last resort, for customers of financial services firms authorised by the FCA.
Financial Services & Markets Act	The Financial Services & Markets Act (FSMA) was passed in 2000 and sets out the framework under which the Financial Conduct Authority (the FCA) operates. See also: FCA.
Financial Times Stock Exchange Indices	Financial Times Stock Exchange Indices (FTSE Indices) are various indices, published by the Financial Times, showing the movement of share prices of the companies which are included in any particular index. The FTSE100 index shows the movement in share prices of the top one hundred companies (by capital value) listed on the London Stock Exchange. Other FTSE indices include the FTSE all-share index (which includes all the shares listed on the London Stock Exchange). There is also a range of FTSE indices for UK Gilts.
fixed interest	A generic term covering all investments which pay interest at a pre-agreed rate for a fixed term, including corporate bonds, gilts and index-linked gilts.
flexi-access drawdown	This allows members to leave their money in their pension pot and take a taxable income at intervals and times to suit them. See also: flexible retirement income.

Term

Definition

flexible
apportionment
arrangement

Before entering into a flexible apportionment arrangement the trustees must be reasonably satisfied that both parts of the funding test are met when:

- ▶ the arrangement takes effect the remaining employers will be reasonably likely to be able to fund the scheme, so that it will have sufficient and appropriate assets to cover its technical provisions (taking into account any changes to the technical provisions that may need to be made as a result of the flexible apportionment arrangement, for example because of a consequential reduction in covenant strength).
- ▶ the effect of the arrangement will not adversely affect the security of members' benefits as a result of any:
 - material change in legal, demographic or economic circumstances, as described in the Scheme Funding Regulations [18], that would justify a change in the methods or assumptions used in the last calculation of the schemes technical provisions (a change in the trustees' assessment of the employer covenant strength may justify a change in relevant assumptions)
 - material revision to any existing recovery plan (for example a longer recovery period)

flexible retirement
income

This allows members to leave their money in their pension pot and take a taxable income at intervals and times to suit them. See also: flexi-access drawdown.

forward contract

An agreement for delivery of a specified asset at an agreed future date, for a price agreed upfront. Forward contracts are not normally traded on a recognised exchange.

front end loading

The practice of levying higher annual charges on contributions made at the beginning of a contract than are charged on contributions paid later on in the life of the contract. These higher annual charges on early contributions are maintained throughout the life of the contract.

Term	Definition
free-standing additional voluntary contribution	Free-standing additional voluntary contribution (FSAVC) are contributions to an individual pension policy separate from an occupational pension scheme, made by an active member of that scheme. Benefits are provided from that policy using contributions from the member only.
fully insured scheme	Where the benefits to which each member is entitled under the scheme rules are secured exclusively by an insurance company taken out by the trustees.
fund manager	An individual (or company) to whom the trustees delegate the management of all or part of the scheme's assets. Also known as investment manager.
funding level	The relationship (normally expressed as a percentage) between the actuarial value of a scheme's assets and liabilities at a specified date (usually the valuation date).
funding position	The absolute amount of any surplus or deficit.
funding target	The desired funding level, usually 100% on the ongoing basis.
funnel of doubt	The shape of a graph to illustrate a range of probable outcomes from a given investment strategy. If the desired outcome is represented by a straight line half way up the vertical axis (investment return) and parallel to the horizontal axis (time), the range of probable outcomes around the centre near the vertical is very small but it widens with the passage of time, making a funnel. Some investment strategies (eg 100% UK Government bonds and gilts) will have a very narrow funnel representing a narrow range of probable outcomes while other, more volatile strategies, will result in a much wider range (ie a much wider funnel).
futures	A contract which binds two parties to complete a sale or purchase at a specified future date at a price which is fixed at the time the contract is affected.

Term	Definition
gilts	Bonds issued by the UK Government, which have a fixed interest rate. If they are index-linked, the value of the gilts increases each year with inflation, which has the effect of increasing the amount of the interest paid.
glide path	A framework or plan, typically to reduce investment risk in future as a pension scheme matures, and/or the funding position improves.
gross performance	Performance returns that are quoted before the deduction of investment management fees. See also: net performance.
Group Personal Pension	Group Personal Pension (GPP) is an arrangement made for the employees of a particular employer, to participate in personal pension schemes with the same pension provider. Each member has a separate pension policy (contract) with the pension provider, although contributions are collected by the employer who then pays them to the provider. Because of the contractual arrangements, a group personal pension scheme is referred to as a contract-based scheme, rather than a trust-based scheme, and there is no board of trustees.
growth asset	Assets which can, broadly speaking, be expected to grow in value in line with the economy as a whole over the long term. Examples include equities or property. See also: growth manager; value manager, value asset, price earnings ratio.
growth manager	Fund managers who invest in shareholdings which they expect to increase in value, almost regardless of the dividends paid. They tend, therefore, to favour shares with a high price/earnings ratio (expensive shares). Growth managers are more likely to do well in rising markets when this type of share tends to perform strongly. See also: price earnings ratio; value manager, value asset, growth asset.
Guaranteed Minimum Pension	Guaranteed Minimum Pension (GMP) is the minimum pension which an occupational pension scheme must provide as one of the conditions of contracting out of SERPS for service before 6 April 1997. It is no longer possible to contract out on any basis however schemes that had contracted out on the GMP basis before 6 April 1997 still have to honour the GMP pensions that they promised.

Term

Definition

guidance

The Pensions Regulator issues guidance to help improve understanding of work-based pension schemes and to promote good practice. This guidance is intended to be helpful but is not a statement of law. It does not carry as much weight as a code of practice, because a court or tribunal will not take it into account when deciding whether a particular legal requirement has been met. See also: codes of practice.

H

HM Revenue & Customs

HM Revenue & Customs (HMRC) was formed in April 2005, following the merger of Inland Revenue and HM Customs and Excise Departments, HMRC determines the tax environment within which pension schemes operate.

I

illiquid

An asset is said to be illiquid if it cannot be traded quickly and easily. For example, a property.

indemnity clause

A clause in the trust document that affords a degree of protection to trustees in the event of a breach of trust.

independent trustee

An individual or company which performs the duties of the trustee but has no other direct or indirect involvement with the pension scheme or its advisers, the sponsoring employer or the members. The Pensions Regulator may appoint an independent trustee to an occupational pension scheme, where an insolvency practitioner has been appointed to the employer.

index-linked gilts

Bonds issued by the UK Government for a fixed term, which have a fixed interest rate. Because they are index-linked, the value of the gilts increases each year with inflation, which has the effect of increasing the amount of the interest paid. Often known as inflation-linked gilts. See also: gilts, inflation-linked gilts; corporate bonds.

Term	Definition
index-tracking	The process of replicating the returns on a given index. Also known as passive management.
indices	Show the average movement of the value of a compilation of assets. Different indices apply to different assets, eg shares in smaller companies, shares in larger companies, property, gilts and corporate bonds. Overseas assets have their own indices, eg the Dow Jones and the Nasdaq in the US. See also: FTSE indices.
inducements	An offer made by an employer to encourage members to transfer out of the scheme. This usually takes the form of an upfront cash payment, but could be a one-off contribution to an alternative (probably DC) pension arrangement.
inflation	This is a measure of the change in the general level of prices of goods. In the UK it is measured chiefly by the Consumer Prices Index (CPI) and the Retail Prices Index (RPI). Pension payments are often linked to inflation.
inflation rate swap	Trustees make a payment or series of payments to a counterparty based on an assumed rate of inflation. In return, the counterparty will make a series of payments back to the scheme, which match the actual rate of inflation. Also known as inflation-linked swaps.
inflation risk	The risk that inflation, or the expectation for future inflation, increases, thereby increasing the value of inflation-linked liabilities. This can be managed by investing in inflation-linked assets, for example index-linked gilts or inflation swaps.
initial notice	Formal communication from trustees to members where a scheme is in wind-up/entry into the PPF assessment period, to be issued within one month of the date winding up or the PPF assessment date.
in-specie	The transfer of assets from one fund or portfolio to another in the form of actual securities (eg BT shares) rather than cash. This avoids the round-trip costs of selling assets with one manager and buying the same assets with another manager, and reduces out-of-market risk.

Term	Definition
insurance broker	An individual or company authorised by the FCA to advise on and arrange any general insurance policy, such a policy to cover death in service benefits, trustee indemnity insurance etc.
Internal dispute resolution procedure	Internal dispute resolution procedure (IDRP) is the written procedure to deal with disputes between beneficiaries on the one hand and trustees on the other, which occupational pension schemes are required to put in place.
interest rate	Effectively, the amount paid by a borrower to a lender to borrow money. The interest rate can be fixed or variable and can be set for a very short (eg overnight) or for a very long (eg 50 years) period of time. It is normally expressed as a percentage of the amount borrowed, or this amount increased in line with some agreed measure.
interest rate duration	The interest rate duration of a pension scheme's estimated liability cash flows is calculated as their weighted average term to payment, where the weight given to each cash flow is that cash flow's present value. A similar definition applies to the cash flows from a bond, to give that bond's interest rate duration.
internal audit	An audit undertaken to cover the running of the scheme by the trustees. It will test the systems and processes in place and whether the scheme's risks are adequately controlled. See also: risk register.
investigating accountant	An accountant who specialises in the close examination of financial statements of companies, in order to determine whether there is any threat to the employer covenant, usually where there is the possibility of corporate restructuring, takeover or merger.

Term**Definition**

investment
consultant

In a DB scheme it is sometimes the case that the scheme actuary will also provide trustees with investment advice. However, the trustees may feel that it is more appropriate to take advice from a specialist investment consultant; particularly in a larger scheme or one where the investment and administration are not undertaken by an insurance company. In a DC scheme the trustees are responsible for setting the scheme's default strategy and, on the advice of suitably qualified advisers, must select investment options for their scheme. Investment consultants advise on all aspects of investment strategy, including investment manager selection, asset allocation and performance measurement. In DC schemes, investment consultants typically advise on the design of the default strategy and its underlying funds, as well as the selection of alternative funds for members who choose their own investment strategy.

investment
management
agreement

The document agreed between a fund manager and the trustees of a scheme setting out the basis upon which the fund manager will manage a portfolio of investments for the trustees. See also: fund manager.

investment portfolio

A collection of assets owned by a particular person, people or organisation, eg a trustee board.

J

journey risk

The risk of a pension scheme's funding position worsening in the short-term as a result of investment market movements.

L

lay trustee

Nominated by the employer (ENTs) or elected by members (MNTs), they are usually members of the scheme and/or employees of the sponsoring employer and are not paid except for incidental expenses. In the charity sector lay trustees may also be elected or appointed by outside persons or entities. Throughout this toolkit, unless otherwise stated, 'trustee' means 'lay trustee'.

letter of appointment

A letter officially appointing an adviser to the trustees.

Term	Definition
leverage	The use of borrowed money in the context of alternative investments which allows for the purchase of more of a given asset than would otherwise be possible. Because of the greater size of holding, the risk is increased; while gains are potentially correspondingly higher, so are losses. If the investment is via a pooled fund, any losses can be limited to the size of the actual investment.
liabilities	Amounts which a pension scheme has an obligation to pay now or in the future. The value of liabilities payable in the future can not be accurately determined, and will be dependent on the use of assumptions.
liability-driven investment	A liability-driven investment (LDI) is an investment approach which focuses on matching the sensitivities of a pension scheme's assets to those of its underlying liabilities in response to changes in certain factors, most notably interest rates and inflation expectations.
life policy	A life policy is a type of pooled investment vehicle offered as an investment option under a life insurance policy. Access to this type of arrangement is restricted typically to certain types of investors, for example pension scheme trustees.
lifestyling	An asset allocation strategy used mainly in defined contribution schemes whereby a member's investments are adjusted depending on age and length of time to pension age. Typically assets are switched gradually from equities to bonds and cash as pension age approaches.
lifetime allowance	The lifetime allowance is an overall ceiling on the amount of tax-privileged savings that any one individual can draw.
Limited Price Indexation	Limited price indexation (LPI) is the minimum annual rate of indexation which must be applied to pensions in payment or deferred pensions, where they relate to service after 5 April 1997. LPI is the lesser of the actual rate of inflation and either 5% or 2.5% depending upon the date when the service was accrued and whether the pension is in payment or deferred. However, schemes are can make increases in pension payments over and above LPI if they wish and the rules allow. See also: Retail Prices Index.

Term	Definition
liquid asset	An asset which is relatively easy and quick to buy or sell, eg equities, fixed interest investments.
liquidation	Liquidation is a type of insolvency in which the company usually closes down, the assets of the business are realised, and the proceeds distributed amongst the creditors in a prescribed way.
listing rules	Made by the FCA and enforceable, they apply to all publicly listed companies (eg listed on the London Stock Exchange or any other exchange). The listing rules cover such matters as the disclosure of price sensitive information, communications on new share offers, rights issues, and potential or actual takeover bids for the company. They also require the company to disclose the ways in which they have applied the UK Corporate Governance Code in their annual report and accounts.
London Interbank Offered Rate	London Interbank Offered Rate (LIBOR) is a benchmark for short term interest rates between banks worldwide, which is published daily.
long position	When an investor stands to benefit from a rise in the price of an asset, they are said to have a 'long position' or simply to be 'long the asset'. This is the case where an investor owns an asset such as an equity or bond. See also: short position.
longevity risk	The risk that the members of a pension scheme will live longer than expected, and hence payments from the scheme will be greater than budgeted for.
longevity swaps	Trustees make a payment or series of payments to a counterparty based on how long a group of scheme members are expected to live. In return, the counterparty will make a series of payments back to the scheme based on how long that group of members actually do live. This provides the scheme with a form of insurance against members living longer than expected.

Term	Definition
mandate	That part of the Investment Management Agreement which stipulates the target return and covers such matters as the proportion of the assets in question which may be invested in different sectors/geographical areas/fixed interest/equities/property (a constrained mandate). Alternatively, it may go so far as to offer the manager total discretion about how to achieve the target (an unconstrained mandate). See also: Investment Management Agreement.
market capitalisation	The market value of a company's issued share capital, ie the number of shares multiplied by the current price of those shares on the stock market.
market neutral	Describes a product designed to give the same return regardless of market conditions. The return should not rise or fall in line with UK equities, but will often offer a fixed percentage above bank rates, inflation or other objective measure. See also: targeted returns.
market value reduction	A market value reduction (MVR) is sometimes applied to a with-profits policy if the policy is cashed in before the maturity date. It reduces the value of the policy. Also known as: market value adjustment.
master trust	An occupational pension scheme established by declaration of trust which is, or has been, promoted to provide benefits to employees of employers which are not connected and where each employer group is not included in a separate section with its own trustees. For this purpose, employers are connected if they are part of the same group of companies (including partially owned subsidiaries and joint ventures).
maturity	For a bond, the length of time (eg 10 years) until receipt of the final interest payment and return of loan amount.

Term	Definition
Maxwell scandal	Robert Maxwell acquired Mirror Group Newspapers in 1984 which published, amongst others, the Mirror newspaper. He died in November 1991 after he was reported missing from his yacht whilst cruising around the Canary Islands. His body was later found in the sea. Shortly after this it was discovered that Robert Maxwell had fraudulently misappropriated hundreds of millions of pounds from his own company's pension funds to shore up the business. The Maxwell companies applied for bankruptcy in 1992.
member	A person who has been admitted to membership of a pension scheme and is entitled to benefit under that scheme. Sometimes narrowly used to refer only to an active member. See also: active member; deferred member; pensioner.
Member-Nominated Director	A member-nominated director is a director of a corporate trustee of an occupational pension scheme, appointed or elected by the members in line with MNT requirements. In the case of very small schemes, where the sponsor is a private company, the corporate trustee may, in effect, be the board of directors of the company, subject to the requirements for member-nominated trustees. Usually referred to as a member-nominated trustee (MNT). See also: MNT.
Member-Nominated Trustee	Member-nominated trustee (MNT) is a trustee of an occupational pension scheme appointed or elected by the members in line with MNT requirements. See also: MND.
Memorandum of Association	A document setting out the details that a company must send to the Registrar of Companies, with the Articles of Association, when the company is formed. These details include the name of the company, its registered address and its objectives. Trustee boards set up as a corporate entity equally require a 'Mem & Arts'. See also: Articles of Association; corporate trustee.
mid price	This is the price, often halfway, between the offer price at which an investor can buy an asset and the bid price at which the investor can sell an asset.

Term	Definition
minimum funding requirement	Minimum funding requirement (MFR) is a requirement under earlier legislation that the actuarial value of the assets of a defined benefit scheme should not be less than the actuarial value of its liabilities, given a prescribed set of actuarial assumptions. This requirement has been superseded by the requirement for scheme-specific calculations.
MoneyHelper	MoneyHelper joins up money and pensions guidance to make it quicker and easier to find the right help, MoneyHelper brings together the support and services of three government-backed financial guidance providers: the Money Advice Service, the Pensions Advisory Service and Pension Wise.
Morris review	A review of the actuarial profession published on 16 March 2005.
mortality rates	Statistics relating to the ages at which people die.
multi-asset investment	A fund which has a remit to invest across a range of asset classes, such as equities and bonds.
N	
National Association of Pension Funds	This is the previous name for Pensions and Lifetime Savings Association.
National Employment Savings Trust	National Employment Savings Trust (NEST) is the name for the personal accounts scheme that was established following the Pensions Commission's review of the UK pensions system. It is run by NEST Corporation, which is a public body accountable to the government via the Secretary of State for Pensions and the Department for Work and Pensions. NEST will be the default pension scheme for those employees whose employer does not offer an appropriate alternative arrangement.
National Insurance Contributions Office	National Insurance Contributions Office (NICO) is part of HMRC, responsible for the collection and recording of national insurance contributions.

Term	Definition
National Insurance Services to Pensions Industry	National Insurance Services to Pensions Industry (NISPI) is a team within the National Insurance Contributions Office (NICO), dealing with occupational pension schemes and appropriate personal pension schemes which are contracted out of the state additional pension scheme (the State Earnings Related Scheme (SERPS) or the State Second Pension).
net performance	Performance returns that are quoted after the deduction of investment management fees.
NIC	National insurance contributions.
non-contributory scheme	A scheme which does not require contributions from its active members.
non-professional clients	Generally defined as having limited investment expertise. Pension scheme trustees tend to fall into this category and they may have other factors to consider apart from investment returns, eg the employer covenant, their attitude to risk etc. Advisers and fund managers are required to give trustees the opportunity to designate themselves as non professional and therefore in need of extra protection, which is likely to result in higher costs for advice and management. See also: professional clients.
Normal Pension Age	Normal Pension Age (NPA) is the earliest age at which a member of a DB scheme can receive full pension benefits.
notice (of wind-up)	The formal written notification between the employer and the trustee that wind-up has been started. The notice must be formally acknowledged in writing. The format will vary from scheme to scheme and should be discussed with the scheme lawyer.
ongoing funding deficit	The amount by which a scheme's liabilities exceed its assets using the ongoing funding measure. Also known as 'Part 3 deficit' and 'scheme-specific funding deficit'. See also technical provisions.



Term

Definition

ongoing funding measure

Also known as ‘technical provisions’, ‘Part 3 measure’ and ‘scheme-specific funding measure’. The funding measure used for the purposes of Part 3 valuations. The ‘technical provisions’ are an estimate, made on actuarial principles, of the assets needed at any particular time to make provision for benefits already considered accrued under the scheme using assumptions prudently chosen by the trustees, in other words, what is required for the scheme to meet the statutory funding objective of a given date. The benefits include pensions in payment (including those payable to survivors of former members) and benefits accrued by other members, which will become payable in the future.

Occupational Pensions Regulatory Authority

The Occupational Pensions Regulatory Authority (OPRA) was established by the Pensions Act 1995, and was responsible for supervising occupational pension schemes. OPRA was superseded by The Pensions Regulator with effect from April 2005. See also: Pensions Regulator.

options

A contract with a bank, which is paid for upfront and which will allow the investor to buy or sell certain specified assets at an agreed price at some time in the future. The market value of those assets may have moved in a way which makes the contract disadvantageous for the bank at the time it is exercised. See also: put option; call option.

out-of-market risk

Normally used to describe the short-term risk of missing out on the return on a market whilst not being invested in that market. For example, during a UK equity asset transfer between two managers, some or all of the funds transferred may effectively be held in cash for a few days while settlement proceeds are awaited from the outgoing manager. If the UK equity market rises in this time, then an out-of-market loss will be incurred.

P

partial projected unit method

A method for calculating technical provisions that takes some (but not full) account of future salary increases (eg salary increases for a limited period perhaps where scheme closure is envisaged).

Term	Definition
par value	The value of a loan at the time it is made by the original investor, also known as the 'maturity value' or 'face value'. It is the amount which the issuer will pay back to the current owner of the bond at the agreed maturity date. For index-linked gilts, the par value is the size of the original loan uplifted to take account of inflation in the meantime.
Part 3 deficit	The amount by which a scheme's liabilities exceed its assets using the 'Part 3' measure. Also known as 'ongoing funding deficit' and 'scheme-specific funding deficit'. See also 'technical provisions'.
Part 3 measure	Also known as 'technical provisions', 'ongoing funding measure' and 'scheme-specific funding measure' The funding measure used for the purposes of Part 3 valuations. The 'technical provisions' are an estimate, made on actuarial principles, of the assets needed at any particular time to make provision for benefits already considered accrued under the scheme using assumptions prudently chosen by the trustees – in other words, what is required for the scheme to meet the statutory funding objective of a given date. These include pensions in payment (including those payable to survivors of former members) and benefits accrued by other members, which will become payable in the future.
participating employer	An employer who contributes or has contributed to a multi-employer or industry-wide occupational pension scheme and has been admitted to participate in the scheme under the scheme rules.
passive fund management	The management of assets, eg equities, gilts, by holding an exact replica of a given index, eg FTSE100, FTSE350, with the result that the assets in question move exactly in line with the chosen index. See also: active fund management.
pension commencement lump sum	A sum of money, up to a quarter of their pot value, that members can choose to take at pension age. members can choose to take their whole pot as a cash lump sum in one go or in a series of payments but only the first quarter is tax-free. The rest is taxes at the member's marginal rate of tax.

Term	Definition
Pension Protection Fund	The Pension Protection Fund (PPF) was established to pay compensation to members of eligible defined benefit pension schemes, whose sponsoring employers become insolvent. The PPF is funded by a levy on all eligible DB schemes. The PPF became operational on 6 April 2005.
Pension Protection Fund buy-out quote	A quote obtained by the trustees when their scheme is in the PPF assessment period. The quote gives the cost of providing the benefits on the basis of the PPF levels of compensation.
Pension Protection Fund levy	A levy on all occupational pension schemes eligible for protection under the PP, to fund the PPF, based on a combination of scheme-based and risk-based factors. The scheme-based element relates to the number of members in a scheme. The risk-based element takes account of the funding level of a scheme and the risk of insolvency for the sponsoring employer. It may also take account of the value of certain contingent assets, guarantees and other commitments to the scheme from the sponsoring employer. See also: Pension Protection Fund (PPF).
Pension Protection Fund measure	This is the level of assets required to provide all of the members with benefits equal to those provided by the Pension Protection Fund (PPF). In this calculation the assumptions used are prescribed by the PPF. Also known as the 'section 179' measure.
pensioner	A person who is currently receiving a pension from a pension scheme.
pensions administration	The day-to-day running of the scheme, including the collection and allocation of contributions, the routine calculation of the benefits of individual members at pension age, in deferment, on death or ill-health. It also includes the maintenance of accurate and up-to-date member records and the management of operational risks. Administration is sometimes performed internally by employees of the sponsoring employer, sometimes contracted-out to a third party administrator, and sometimes carried out by the pension provider, in the case of fully insured schemes.

Term	Definition
Pensions and Lifetime Savings Association	UK trade association for the pensions and lifetime savings industry representing workplace pension schemes and supporting businesses. They were previously known as the National Association of Pensions Funds (NAPF).
pensions in payment	Pensions that are currently being paid.
pensions manager	May be the manager of a pensions administration area, or may act as the secretary to the trustees, or may even be the chief executive of the pension scheme. See also: pensions administration.
Pensions Ombudsman	Deals with: ▶ disputes about entitlement and complaints of maladministration from individual members of occupational pension schemes ▶ disputes between trustees of occupational pension schemes and employers ▶ disputes between trustees of different occupational pension schemes
Pensions Regulator	The Pensions Regulator regulates work-based pension schemes in the UK.
Pensions Regulator Tribunal	The independent body set up to hear references (appeals) on determinations (rulings) made by the Determinations Panel. The tribunal issues its own guidance on the form and content of such an appeal. The tribunal may consider any evidence available to it in relation to the subject of the appeal. This includes evidence that was not available at the time of the original determination.
platform provider	In the context of a defined contribution pension scheme, a platform is an investment structure established by a pension provider (eg an insurance company) which offers a wide range of investment funds. The platform provider is the firm that administers the platform.

Term	Definition
pooled fund	Also known as pooled arrangement. A fund in which large numbers of investors hold units, as part of a 'pool'. The underlying assets are managed by a fund manager and not directly owned by the investors.
portfolio	A collection of securities (eg UK equities/shares) or asset classes (eg global equities, UK bonds, and UK property).
portfolio turnover rate	The portfolio turnover rate (or PTR) is a measure of how frequently an investment manager changes or 'turns over' the underlying investments of a fund during a defined period of time, usually a year. PTR is calculated by taking either the total value of securities bought or the total value of securities sold (whichever is less) and dividing by the total asset value of the fund.
preferential creditor	A creditor who is entitled to receive certain payments in priority to debenture holders and other unsecured creditors. These creditors include: ▶ HMRC (income tax deducted at source, VAT) and National Insurance contributions ▶ occupational pension schemes (members' contributions for the four months prior to the insolvency event, and employers' contracted out contributions for the 12 months prior to that date) ▶ wages in the four months prior to the insolvency event
present value	A method used to calculate the current value of a series of future pension payments and future receipts, such as contributions and investment returns. See also: discount rate.
preserved benefits	Benefits arising on an individual ceasing to be an active member of an occupational pension scheme, payable at a later date (eg a member who leaves that employment before retirement date).

Term	Definition
price earnings ratio	The most common measure of how expensive a share is. It shows how a company's shares are priced in relation to its historical earnings. A high P/E ratio shows that the market expects the company's earnings to grow fast in the future (ie an expensive share). The opposite applies to shares with a low P/E ratio. The P/E ratio is calculated by dividing the earnings per share figure into the market price of the shares. If a company has earnings per share of 35p and the market price is 500p, the shares have a P/E ratio of 14.3 (500 divided by 35). In other words, the shares are selling at 14.3 times earnings.
priority order	The provisions contained in the scheme documentation or in overriding legislation setting out the order of precedence of liabilities to be followed if the scheme is in wind-up.
professional clients	Defined as having a good understanding of their own goals and requirements, and a good knowledge of financial theory. There will be many boards of trustees who categorise themselves as professional clients. They will not be in need of the extra protection given to non-professional clients. See also: non-professional clients.
professional trustee body	Means a body which: ▶ was not established by an employer in relation to the scheme ▶ is remunerated for its services as a trustee by one or more schemes ▶ has arranged a policy of indemnity insurance in relation to the exercise of its functions as a trustee of the scheme ▶ is carrying out its functions as a trustee of the scheme in the ordinary course of a profession or business which consists of, or includes, providing and holding itself out as providing services in connection with the management or administration of trusts or any particular aspect of such management or administration, whether or not such services relate to a particular kind of trust
projected unit method	A method for calculating technical provisions which takes full account of future salary increases.

Term	Definition
protected liabilities	Applying where a scheme is in wind-up or an assessment period for the PPF, they represent the value of members' benefits at PPF compensation levels, plus any other liabilities and the estimated expenses of winding up the pension scheme.
Prudential Regulation Authority (PRA)	On 1 April 2013 the Financial Services Authority (FSA) split into two regulatory bodies – the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA). The PRA is responsible for the authorisation, in conjunction with the FCA, and prudential supervision of individual deposit takers (including banks, building societies and credit unions), insurers (including friendly societies) and certain designated investment firms. See also: Financial Conduct Authority.
put option	A contract with a bank which is paid for upfront and which will allow the investor to sell certain specified assets at an agreed price at some time in the future, even if the market value of those assets at that time is less than that agreed price.
Q	
qualifying earnings	Qualifying earnings are gross earnings, including sick pay, statutory maternity pay and paternity and adoption pay between a lower and upper limit called a 'qualifying earnings band'.
quoted company	A company which has its shares listed on an exchange (eg the London Stock Exchange, the New York Stock Exchange etc).
R	
real returns	The difference between the rate of return of an investment and a selected measure of inflation (eg RPI) over the same period. See also: returns.
rebalancing	Adjusting a portfolio to bring it back into line with the benchmark or with the investment strategy.

Term	Definition
recoverable debt	The amount of the debt due from the employer (ie the shortfall between the assets and the liabilities) which the trustees of a scheme in wind-up can actually recover from the insolvent company.
recovery plan	DB schemes only. A strategy by which an employer will make up the deficit in an underfunded scheme over a specified period of time. See also: schedule of contributions.
reference scheme test	The comparison of the benefits provided by a contracted out defined benefit scheme with those under a model 'reference scheme'.
register	The record of all occupational pension schemes maintained by The Pensions Regulator.
registered	The term used by HMRC to describe those schemes meeting the requirements which entitle them to the tax privileges associated with funded occupational pension schemes. Formerly known as approved schemes.
registrable information	The scheme-specific information required by The Pensions Regulator and held on the register of occupational pension schemes.
relationship manager	An employee of a fund management company who maintains the relationship with trustee clients.
relevant date	The date at which the assets of the scheme must be valued for PPF purposes (where a scheme is in the PPF assessment period); this is the day immediately before the assessment date. See also: assessment date.
relevant multi-employer scheme	A multi-employer scheme in which some or all of the employers participating in the scheme are unconnected, or where the scheme is promoted as a scheme where the employers need not be connected. With some very limited exceptions, relevant multi-employer schemes have additional requirements to meet in relation to the independence of the trustees of the scheme.

Term	Definition
Retail Prices Index	The Retail Prices Index (RPI) is a measure of the price of goods and services in the UK. The change in RPI is the level of RPI inflation. See also: CPI.
returns	The amount by which an investor benefits from owning an asset (interest, dividends and any change in value less any charges levied). See also: real returns.
risk	In broad terms, this is the chance that the actual outcome is different from what was expected. For example, one definition of risk is the chance that an investment will return less than anticipated. In general, financial markets offer a risk/reward balance, whereby the greater the potential reward, the greater the level of risk that must be assumed.
risk appetite	The level of risk that a member or set of trustees is willing to take. A member is said to have a high risk appetite if they wish to invest more in risky investments.
risk premium	The extra yield of an investment (over the gilt yield) demanded by investors to compensate them for the higher risk. Sometimes used in the calculation of expected investment returns on equities, when selecting an assumption for the discount rate.
risk register	A document listing potential risks, their consequences to the scheme, and controls in place for mitigating those risks. See also: internal audit.
S	
salary sacrifice	A written agreement between the employer and employee whereby the employee forgoes part of his/her future earnings in return for a corresponding contribution by the employer to a pension scheme. NB: This is not the same as an AVC, which is paid by the employee.
schedule of contributions	Specifies the contributions payable by the employer over a given period of years, and includes any special contributions paid under a recovery plan. See also: recovery plans.

Term	Definition
scheme booklet	A booklet for members which should clearly set out the benefits offered by the scheme and how the scheme is run. The scheme booklet is given to all members of the scheme when they join.
scheme lawyer	A legal adviser to the scheme who advises trustee boards on the appropriate or relevant provisions of: ▶ trust and pensions law ▶ their own scheme's trust deed and rules
scheme-specific funding measure	Also known as 'technical provisions', 'ongoing funding measure' and 'Part 3 measure' The funding measure used for the purposes of Part 3 valuations. The 'technical provisions' are an estimate, made on actuarial principles, of the assets needed at any particular time to make provision for benefits already considered accrued under the scheme using assumptions prudently chosen by the trustees, in other words, what is required for the scheme to meet the statutory funding objective of a given date. These include pensions in payment (including those payable to survivors of former members) and benefits accrued by other members, which will become payable in the future.
scheme statutory discharge	The discharge of trustee liabilities on completion of a wind-up.
scope guidance	Provided by The Pensions Regulator, setting out the topics on which trustees should have knowledge and understanding to comply with recent legislation.
section 61 Trustee Act 1925	This states that the Court can excuse a trustee for a mistake made, if the trustee acted honestly and reasonably and should not necessarily have asked for the Court's directions at an earlier stage.
section 75 measure	This is the cost estimated by the scheme actuary of buying annuities from an insurance company for each of the scheme members. Also known as the 'buy-out' measure.

Term	Definition
section 143 valuation	An actuarial valuation carried out on a prescribed basis, required under Pensions Act 2004 to determine whether the value of a defined benefit scheme's assets is less than the amount of its protected liabilities at the PPF assessment date.
section 179 measure	This is the level of assets required to provide all of the members with benefits equal to those provided by the Pension Protection Fund (PPF). In this calculation the assumptions used are prescribed by the PPF. Also known as the 'PPF measure'.
segregated	The scheme's investments are held separately to other investors, in a custodial account specifically for that client.
service level agreement	Service level agreement (SLA) is part of a service contract which specifies the precise level of service to be provided under the contract, and will give examples which will include expected timescales. It will also detail action that will be taken if the requirements of the SLA are not met.
share	This is the name for the individual units of equity in a company. Often referred to in the plural, shares may also be referred to as stock or equity.
shareholder	Someone who owns shares in a company.
Sharia-compliant fund	A Sharia-compliant fund invests in accordance with Islamic law and exclude investments that conflict with Muslim values for example investments in companies involved in producing alcohol or pork-related products; or financial services that operate on interest payments.
short position	When an investor stands to benefit from a fall in the price of an asset, they are said to have a 'short position' or simply to be 'short the asset'. Being short an asset is generally more complex to manage than being long the asset. For example, to short an equity requires the investor to borrow the equity (for a fee), to then sell the equity and finally to buy it back at some future date, at which point the expectation/hope is that the price has fallen.

Term	Definition
single pricing	Single pricing means that there is only one price for units of a fund. Therefore, buyers and sellers of units trade at the same price. However, that single price may swing between a bid price or an offer price, depending on volumes of sales or purchases on any given day.
socially responsible investment	Socially responsible investment (SRI) are investments that comply with any social, environmental and ethical principles which may be adopted by the trustees. Occupational pension schemes are required to disclose the extent to which, if at all, social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments.
sponsoring employer	The employer with responsibility for meeting the liabilities of a DB pension scheme. In DC schemes, typically the employer who sets up and/or assumes responsibility for the running of the scheme, and may meet the expenses.
stamp duty	The tax paid on the acquisition of certain assets, eg property, equities etc, with a value above a certain threshold determined by the Treasury.
statutory funding objective	The requirement for an ongoing scheme to have sufficient and appropriate assets to cover its technical provisions, or a recovery plan to reach that position. See also: technical provisions; recovery plan.
statutory independent trustee	An independent trustee, appointed at the discretion of The Pensions Regulator (TPR) to a scheme where the employer has become insolvent. The independent trustee must be chosen from TPR's register of approved independent trustees.

Term	Definition
statutory objectives	The specific objectives set for The Pensions Regulator (TPR) in the Pensions Act 2008 are: ▶ to protect the benefits of members of occupational pension schemes ▶ to protect the benefits of members of personal pension schemes (where there is a direct payment arrangement) ▶ to promote, and to improve understanding of the good administration of work-based pension schemes ▶ to reduce the risk of situations arising which may lead to compensation being payable from the Pension Protection Fund (PPF) ▶ to maximise employer compliance with employer duties and the employment safeguards introduced by the Pensions Act 2008 ▶ to minimise any adverse impact on the sustainable growth of an employer (in relation to the exercise of TPR's functions under Part 3 of the Pensions Act 2004 only)
State Earnings Related Pension Scheme	State Earnings Related Pension Scheme (SERPS) (replaced by S2P, the State Second Pension). Both the basic state pension and S2P have since been replaced by one flat-rate state pension. See also: State second pension.
State Second Pension	State Second Pension (S2P) are the earnings-related element of the state pension scheme which has replaced the State Earnings Related Pension Scheme (SERPS) to enhance the basic state pension. Both the basic state pension and S2P have since been replaced by one flat-rate state pension.
Statement of Funding Principles	Statement of Funding Principles (SFP) sets out a scheme's policy for meeting the statutory funding objective for an ongoing scheme (DB schemes only).

Term	Definition
Statement of Investment Principles	Statement of Investment Principles (SIP) is a written statement of the principles governing decisions about investments for an occupational pension scheme, which trustees are required to prepare and maintain. When preparing the SIP, trustees must have regard to advice from a suitably qualified person, and consult with the employer. For default arrangements, trustees must prepare a written statement of the investment principles governing decisions about investments for the purposes of such default arrangement(s). This must cover the aims and objectives in respect of the investments, the investment policies in respect of the default arrangement, and an explanation of how the aims and objectives and the policies are intended to ensure that the assets are invested in the best interests of members and beneficiaries.
Statement of Recommended Practice	Statement of Recommended Practice (SORP) is guidance on best accounting practice for the presentation of financial information prepared by the particular sector to which the SORP relates (in this case, occupational pensions). See also: pension scheme statement of recommended practice.
stock exchange	A marketplace in which equities/stocks/shares are traded. Its purpose is to ensure fair and orderly trading as well as efficient distribution of price information for any securities trading on that exchange.
stock lending	A temporary transfer of securities (for example, equities) by an owner (typically a pension scheme) to a borrower (usually a fund manager). The borrower undertakes to return those securities to the lender at pre-agreed time.
strategic investment	Carried out by trustees as part of the preparation of their SIP, it is the practice of making long term decisions on asset allocation so that they are able to pay pension benefits as they fall due. See also: tactical investment.
supervisor	An insolvency practitioner appointed to supervise the carrying out of a member's or creditor's voluntary arrangement.

Term	Definition
suppliers	People or organisations providing services for the trustees, eg administration, IT infrastructure, custody arrangements etc. Also referred to as 'service providers'.
swaps	Arrangements by which one type of income stream is swapped for another (eg an income stream at a variable rate of interest may be swapped for an income stream at a fixed rate of interest). Such an arrangement is often made through an investment bank. Interest rate swaps are the most frequently used but there are types of swaps available, eg to offset the risk of inflation or longevity.
T	
tactical investment	Day-to-day investment decisions (eg stock selection) for which the function and the responsibility may be delegated to the fund managers. See also: strategic investment.
tail risk	The residual risk of a very large loss outside the normal range of probability.
target weight	'Weight' means the proportion of the scheme's assets taken up by each asset class. 'Target' is used because the actual weights will vary over time because of changes in value of the different investments.
targeted return	A particular absolute return agreed between the trustees and the fund manager. See also: absolute returns.
technical provisions	The funding measure used for the purposes of Part 3 valuations. The 'technical provisions' are an estimate, made on actuarial principles, of the assets needed at any particular time to make provision for benefits already considered accrued under the scheme using assumptions prudently chosen by the trustees, in other words, what is required for the scheme to meet the statutory funding objective on a given date. The benefits include pensions in payment (including those payable to survivors of former members) and benefits accrued by other members, which will become payable in the future. Also known as 'ongoing funding', 'Part 3' and 'scheme-specific funding'.

Term	Definition
terminal bonus	The bonus paid when a with-profits insurance policy matures. Such a bonus is customary but not guaranteed.
terminated	Used to describe an occupational pensions scheme which has been wound up. See also: winding up.
total expense ratio	The Total Expense Ratio (TER, sometimes known as 'ongoing charges') is another way of expressing the costs and charges that apply to an investment fund or pension scheme. The TER will always include the Annual Management Charge (AMC) but it is worked out on a historic basis for the previous year and is therefore also able to include other fees and charges such as legal and audit costs, custodial fees and investment administration fees which have been applied. However, and despite the name, the TER does not include all the costs that an investor has been charged. It does not include the transaction costs incurred when buying and selling investments or the taxes associated with those transactions. Nor does the TER capture other costs such as those associated with entering or exiting from a fund or a scheme.
The Pensions Advisory Service	The Pensions Advisory Service (TPAS) is now part of MoneyHelper. MoneyHelper joins up money and pensions guidance to make it quicker and easier to find the right help, MoneyHelper brings together the support and services of three government-backed financial guidance providers: the Money Advice Service, the Pensions Advisory Service and Pension Wise.
the regulator	The Pensions Regulator.
traffic light principle	The Pensions Regulator's principle to help trustees decide whether a breach of the law is serious enough to report ('of material significance'). A breach is in the red category when: ▶ it is caused by dishonesty, deliberate contravention of the law, poor advice, or poor scheme governance ▶ it is significant ▶ steps are not being taken to put it right ▶ it has wider implications

continued...

Term

Definition

'Amber' breaches are harder to define as they fall in between red and green. They might consist of several failures of administration that, although not significant in themselves, have a cumulative significance because steps are not taken to put things right. 'Green' breaches are those that are not caused deliberately or dishonestly, or by poor governance or poor advice; they are not significant, steps are being taken to put them right, and they don't have wider implications.

transfer value

The amount of money which a scheme will pay to another pension arrangement in lieu of benefits which have accrued to a member. Sometimes referred to as a CETV (Cash Equivalent Transfer Value).

trigger

Used to describe the particular situation which puts a scheme into wind-up. It enables trustees to pinpoint the precise moment when this occurs, which becomes the 'as at' date for calculating benefits. A feature of a scheme's recovery plan which will cause The Pensions Regulator to check that members' benefits are not unduly threatened.

trivial commutation

The conversion of a pension, which is below a prescribed level, into a cash sum (commutation).

trust corporation

A company empowered under trust law to act as a custodian for scheme assets and which is expected to provide professional expertise in managing trusts.

trust deed

A legal document, executed in the form of a deed, which establishes, regulates or amends a (pension scheme) trust. See also: trust document; trust rules.

trust document

Comprising the trust deed and the trust rules, also known as the trust deed and rules. See also: trust deed; trust rules.

trust rules

A legal document, usually attached to the trust deed, which establishes the rules under which the (pension scheme) trust will operate including such matters as who should be a member and what the benefits will be. See also: trust deed; trust document.

Term**Definition**

trustee

An individual or company appointed to carry out the purposes of a trust in accordance with the provisions of the trust instrument and general principles of trust law.

V

value asset

A type of asset which should achieve high income returns in relation to price. This type of asset should do relatively well in falling markets as it is expected to hold its value better than other assets, eg growth assets. See also: value manager, growth asset, growth manager, price earnings ratio.

value manager

A type of manager who aims to achieve results by investing in companies that offer high income returns in relation to the price of the shares (ie shares with a low price/earnings ratio). Value managers tend to do relatively well in falling markets because shares with a low price/earnings ratio (cheap shares) tend to hold their value better than others, eg growth managers. See also: growth manager, growth asset, value asset, price earnings ratio.

volatility

This is a measure of the variability of the returns an investment generates. The greater an asset's volatility, the greater the expected changes (up and down) in price, and the greater the uncertainty the investor will have as to the value of the investment in future. Volatility is measured using statistical measures such as standard deviation.

W

white labelling

White labelling is the practice of applying a 'wrapper' to a fund or collection of funds within a DC scheme, often giving the white-label fund a simple name (eg 'UK equity fund') which may describe the fund's objective. This enables trustees or employers to change the underlying funds more easily, and without extensive member communication, and the fund is not associated with or tied to a particular investment manager.

Term**Definition**

winding up

The process of closing down an occupational pension scheme. In the case of a DB scheme this is usually achieved by applying the assets to the purchase of insurance policies (annuities) for the beneficiaries, or by transferring the assets and liabilities to another pension scheme, in accordance with the scheme documentation or statute. In the case of a DC scheme, wind-up is usually achieved by transferring members' funds to a new pension arrangement.

winding up lump sum

The conversion of a pension which is below a prescribed level, into a cash sum (commutation), payable where a scheme is winding up.

with-profits annuity

An annuity purchased through a with-profits insurance policy. In the early years income may be smaller than a normal annuity, with the expectation that it will increase over time with investment returns.

withdrawal

Arrangements required to ensure that, in the event of a bulk transfer, the pension rights of all members are protected.

Y

yield

A measure of the annual income earned on an investment. For shares this is normally the annual value of the dividends expressed as a percentage of the market price of the share. For bonds, the yield will be the annual interest rate divided by the price paid for the bond, which may be more or less than the nominal value. In the case of inflation-linked gilts the value of the gilt will increase with inflation, leading to increased yield.