

# Glossary

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## A-Day

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

## Accrual

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

## Active members

Active members are current employees who would normally contribute (or have contributions made on their behalf) to an organisation’s **occupational pension scheme**. The scheme may be open or closed to new members but cannot be frozen. In some cases, there may be a break in contributions, known as a **contribution holiday**.

## Actuarial assumptions

The assumptions made by **actuaries** in formulating valuations or making other calculations. Assumptions would include changes in longevity, wages, inflation, and returns on assets.

## Actuarial reduction

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

## Actuary

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

## Additional voluntary contributions (AVCs)

Supplementary pension contributions made by someone who is also a member of an **occupational scheme** as a top-up to their main occupational entitlement.

## Administrative data

Data that are a by-product of the operational activity of an organisation, such as tax data from HM Revenue and Customs.

Administrative data are distinct from survey data, which are collected specifically for a statistical or research purpose.

## Annual management charge (AMC)

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

## Annuity

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

## Appropriate personal pension (APP)

A type of **personal pension** that meets certain regulatory requirements that allow an individual employee to contract out of the **State Second Pension** (formerly SERPS) and receive contracted-out rebates from National Insurance payments.

## Alternatively secured pension (ASP)

A form of **income drawdown**, introduced on **A-Day** to provide an alternative to having to use pension savings to buy an **annuity** by age 75. Individuals can continue to invest their pension savings and draw a limited income from their fund.

## Auto-enrolment/automatic enrolment

The process whereby where an individual is made a member of a pension scheme by default, and has to take action if he or she wishes to leave the scheme.

## Average salary/career average scheme

A **defined benefit** scheme that gives individuals a pension based on a percentage of the salary earned in each year of their working life or a selection of final years (rather than being based solely on the final year).

## Basic State Pension (BSP)

The Basic State Pension is a flat-rate benefit, unrelated to earnings, paid by the Government to people who have reached **State Pension Age**. The State Pension Age is currently 65 for men and 60 for women, but in 2010, women’s State Pension Age will start to increase, reaching 65 by 2020. An individual’s Basic State Pension depends on the number of qualifying years that they have earned during their working life. The number of qualifying years is based on the **National Insurance**

contributions that a person has been paid, has been treated as having paid, or has been credited with. The Pensions Service website shows current levels of the Basic State Pension (<http://www.thepensionservice.gov.uk>).

### Beneficiary

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

### Bond

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

### Bulk buyout

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

### Career average scheme

See **average salary/career average scheme**.

### Class 1/2/3/4 contributions

See **National Insurance**.

### Closed pension scheme

See **scheme status**.

### Cohort

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

### Cohort life expectancy

See **life expectancy**.

### Contracted out

This refers to a statutory arrangement under which pension schemes that meet certain conditions may contract out of the **State Second Pension (S2P)**, formerly the **State Earnings-**

**Related Pension Scheme (SERPS)**. The members' and employers' National Insurance contributions are reduced or partially rebated. Members of a contracted out pension scheme obtain rights in the pension scheme in place of additional earnings-related benefits under the state scheme. See also **minimum contribution**.

### Contracted-out mixed benefit scheme (COMBS)

An occupational pension scheme which has separate defined benefit and money purchase sections and which contracts out on both bases.

### Contracted-out money purchase scheme (COMPS)

A scheme that contracts out on a money purchase basis (see **minimum contributions**).

### Contracted-out rebate

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

### Contracted-out salary-related scheme (COSRS)

An occupational pension scheme that has retirement benefits that are based on salary, and which has been contracted out according to Section 9(2) of the Pensions Schemes Act 1993.

### Contracted-out stakeholder pension (COSP)

A stakeholder pension that has been contracted out according to the **Appropriate Personal Pension** requirements.

### Contributions

Payments into a pension scheme from members or employers.

### Contribution holiday

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

### Corporate bonds

See **bond**.

### Corporate securities

See **securities**.

### Crude birth rate

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

### Crude death rate

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

### Decile

See **percentile**.

### Decumulation

The drawing down of pension assets to fund retirement. In the UK it is permitted to access pension assets partially as a **tax-free lump sum** and partially as an income stream (i.e. as an **annuity** or **income drawdown**).

### Deferred entitlement

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

### Deferred member

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

### Defined benefit scheme

A pension scheme in which the rules specify the rate of benefits to be paid. The most common defined benefit scheme is a salary-related scheme in which the benefits are based on the number of years of pensionable service; the accrual rate; and on the final salary, the average of selected years' salaries, or the best year's salary within a specified period before retirement.

### Defined contribution scheme

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

### Dependant

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

### Dependency ratio

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

### Discount rate

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

### Economically active

People who are either employed or unemployed. See **economically inactive**.

### Economically inactive

Economically inactive people are those who are neither in **employment** nor **unemployed**, and who are not actively seeking work; these include people looking after a home or family, and the long-term sick or disabled.

### Employer-sponsored scheme

A pension scheme that is organised through the employer, enabling pension contributions to be made through the payroll. Often the employer will also make a contribution. An employer-sponsored scheme can either be **occupational** or **group personal** in nature.

### Employment

People who are in employment may be employees, self-employed, on a government-supported training programme, or unpaid family workers. The International Labour Organisation (ILO) defines people as being employed if they are in one or more hours of paid employment a week.

### Equity

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

## Equity release

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

## Fertility rate

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

## Final salary scheme

See **defined benefit scheme**.

## First tier

See **tier**.

## Free-standing additional voluntary contributions (FSAVCs)

Contributions made by a member of an occupational scheme to a separate money-purchase pension. Employers are not obliged to make contributions

## Frozen pension scheme

See **scheme status**.

## FRS17

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

## Funded scheme

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

## Gilts

An abbreviation for 'gilt-edged securities', also known as government **bonds**. These are negotiable loan instruments issued by the UK Government. They are generally similar in structure to corporate bonds, paying a fixed schedule of coupon payments together with the return of the principal (i.e., the face value of the bond) on the redemption date. Gilts are generally considered to be one of the safest forms of investment and so

generate a correspondingly lower return than some more risky assets such as corporate bonds or **equities**. Some gilts make payments that are fixed in cash terms, whereas others make **index-linked** payments.

## Government securities

See **securities**.

## Graduated retirement benefit

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

## Gross Domestic Product (GDP)

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

## Gross operating surplus

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

## Group personal pension

An arrangement made for the employees of a particular employer to participate in a personal pension scheme on a group basis. This is a collecting arrangement, not a separate pension scheme.

## Guarantee Credit

A **means-tested benefit** that is part of the **Pension Credit** and provides pensioners with a minimum level of income. The Pensions Service website shows the current levels of Guarantee Credit (<http://www.thepensionservice.gov.uk>).

## Guaranteed equity bonds

Bonds that offer holders protection from capital loss. Interest income varies with the performance of the underlying assets being tracked. In general, such assets guarantee total capital protection in all circumstances, but for some bonds protection is subject to certain market conditions being met.

## Head of household

The eldest householder, with males taking precedence over females in the case of couples or non-related joint householders. In the past, the head of household was used in surveys to represent the household but since 2001, the Office for National Statistics and others have used the **household reference person**.

## Hedge fund

A loosely-regulated fund with a high minimum level of investment that, unlike mutual funds and unit trusts, is able to use borrowing and financial derivatives in pursuit of relatively aggressive investment strategies.

## Home Responsibilities Protection (HRP)

This reduces the number of years for which someone has to make **National Insurance** contributions in order to receive a full state pension. It is available to people who are not in work because they care for children or the long-term sick or disabled.

## Household reference person

The person in a household selected in modern surveys to indicate the general characteristics of the household. Until 2001, the **head of household** filled this role. The household reference person is defined as the person in whose name the accommodation is owned or rented. When there are joint householders, it is the person with the highest income; if their incomes are the same then the older is selected.

## Household saving ratio

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

## Housing Benefit

A **means-tested benefit** through which the UK Government helps qualifying individuals to meet rental payments. Qualification criteria include income, savings and personal circumstances.

## Hybrid scheme

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

## Imputed contributions

Notional employer contributions to unfunded schemes, calculated to represent the amounts that would be required to meet the accruing liabilities of the schemes if they were funded.

## Incapacity benefit

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

## Income drawdown

Where an individual does not buy an **annuity** with their pension pot but instead draws an income from the fund (see **alternatively secured pension** and **unsecured pension**).

## Index-linked

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

## Individual Savings Account (ISA)

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

## Insured scheme

A scheme for which the retirement benefits are secured by insurance policies and that is administered by an insurance company, as opposed to a self-administered occupational pension.

## International Labour Organisation (ILO)

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

## Interpolation

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

## Interquartile range

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

## Invalidity benefit

A benefit paid to people assessed as incapable of work, which was replaced by **Incapacity Benefit** from 1995.

## Investment trusts

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

## Liabilities

In the context of pensions, the benefits owed to members by a pension scheme.

## Life expectancy

Life expectancy at a given age is an estimate of the average number of years that someone of that age will live thereafter. It is calculated using age- and sex-specific mortality rates at that age, at that age plus a year, at that age plus two years, and so on. **Period life expectancy** is calculated using age-specific mortality rates for the period under consideration and makes no allowance for changes in age-specific mortality rates after that period. For example, a period life expectancy calculation for a man aged 50 in calendar year 2000 would use male mortality rates for age 50 in 2000, age 51 in 2000, age 52 in 2000 (and so on). **Cohort life expectancy** is calculated allowing for subsequent known or projected changes in age- and sex-specific mortality rates after that period. For example, a cohort life expectancy for a man aged 50 in 2000 would be calculated using male mortality rates for age 50 in 2000, age 51 in 2001, age 52 in 2002 (and so on). The cohort definition is the better measure of true life expectancy.

## Lifestyle fund

An investment fund that has an asset mix determined by the level of risk and return deemed appropriate for an individual investor according to their age. Funds aimed at younger investors consist mainly of higher risk (and higher return) assets such as equities, while funds aimed at investors closer to retirement consist mainly of lower risk (and lower return) assets such as bonds. As investors age, their pension pots are moved into funds with decreasing levels of risk, as they move towards retirement.

## Longitudinal

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

## Lower Earnings Limit

For the purpose of calculating rights to the **State Second Pension (S2P)**, employee contributions are treated as having been paid on earnings from the Lower Earnings Limit up to and including the **Lower Earnings Threshold**. For current levels, see the HM Revenue and Customs website (<http://www.hmrc.gov.uk/rates/nic.htm>).

## Lower Earnings Threshold

See **Lower Earnings Limit**.

## Mean

Another term for 'average'. The mean of a group of values is calculated by summing all of the values and dividing the total by the number of values.

## Means-tested benefits

State benefits in which the amount paid depends on an individual's level of income and capital and other personal circumstances.

## Median

The median of a distribution is the value below which half of the data lie. For example, if the heights of nine people are placed in order, then half of the people will have heights below the fifth value, which is the median. The median is a useful alternative to the **mean** when data are not evenly distributed.

## Minimum contributions/National Insurance rebate

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

## Minimum funding requirement

A requirement, under the 1995 Pensions Act, that under a prescribed set of **actuarial assumptions**, the actuarial value of assets of a **defined benefit scheme** should not be less than its actuarial liabilities.

## Minimum Income Guarantee (MIG)

The forerunner of the **Guarantee Credit**.

## Money purchase scheme

See **defined contribution scheme**.

## Mortality

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

## Mutual funds

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

## National Accounts

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

## National Insurance (NI)

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

## National Insurance number

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

## National Insurance rebate

See **minimum contributions**.

## National Savings Bonds

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

those payments automatically reinvested at the initial interest rate.

## National Statistics Socio-economic Classification (NS-SeC)

The classification used for all official statistics and surveys in the UK since 2001 to categorise socio-economic status. It is based on occupation and details of employment status.

## Non-contributory pension scheme

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

## Non-Profit Institutions Serving Households (NPISH)

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

## Non-state pension

A pension other than the state basic or earnings-related (second) pension. A non-state pension is sometimes referred to as a private pension. It includes all occupational and personal pensions, including those for public sector employees.

## Notionally funded

A form of **unfunded** pension scheme in the public sector, in which pension contributions are theoretically paid from the relevant department to HM Treasury to purchase **gilts** but where the future cost still has to be met out of future tax revenue.

## Occupational pension scheme

An arrangement (other than accident or permanent health insurance) organised by an employer (or on behalf of a group of employers) to provide benefits for employees on their retirement and for their dependants on their death.

## Occupational Pensions Regulatory Authority (OPRA)

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

## Open-ended investment company

A collective investment company that creates new units in a portfolio of underlying assets when money is invested and redeems them when money is withdrawn. Open-ended

investment companies differ from unit trusts in that there is a single buying and selling price for the units traded.

### Open pension scheme

See **scheme status**.

### Outturns

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

### Partly insured pension scheme

A self-administered scheme in which some of the assets are reinvested with an insurance company in the form of insurance policies.

### Pay As You Earn (PAYE)

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

### Pay As You Go (PAYG)

A system in which the state uses revenue received from taxation and other sources to pay out benefits, rather than funding and investing to produce income. The **Basic State Pension** and the **State Second Pension** are both PAYG schemes, as are unfunded schemes.

### Pension

An income to be used in retirement.

### Pension Credit

The main means-tested benefit for pensioners, which combines the **Guarantee Credit** and the **Savings Credit**.

### Pension fund

The pool of investment assets, purchased through aggregate employer and employee contributions to a pension scheme or pension schemes, from which pension payments are made to retired members. Fund holdings consist of longer-term financial assets such as corporate and public sector securities, fixed assets and other short-term assets.

### Pension Protection Fund

The Pension Protection Fund was established in April 2005 to pay compensation to members of eligible defined-benefit pension schemes, when there is a qualifying insolvency event in

relation to the employer and where there are insufficient assets in the pension scheme to cover Pension Protection Fund levels of compensation.

### Pension scheme

A plan offering benefits to members upon retirement. Schemes are provided by the state, employers and insurance firms, and are differentiated by a wide range of rules governing membership eligibility, contributions, benefits and taxation.

### Pensionable service

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

### Pensioners' Guaranteed Income Bonds/Granny Bonds

Bonds issued by National Savings and Investments, an executive agency of HM Treasury, that are available to those aged over 60 only, offering a taxable fixed income over a fixed term to maturity.

### Pensions in payment

Pensions that are being paid out to members.

### Percentiles

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

### Period life expectancy

See **life expectancy**.

### Persistency

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

### Personal Equity Plan (PEP)

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

## Personal pension scheme

A scheme where the contract to provide contributions in return for retirement benefits is between an individual and an insurance firm, rather than with an employer or the state. Such schemes may be joined by individuals under their own volition – for example, to provide a primary source of retirement income for the self-employed, or to provide a secondary income to employees who are members of occupational schemes – or they may be facilitated (but not provided) by an employer (see **Group Personal Pensions**).

## Premium Bonds

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

## Private pension

See **non-state pension**.

## Private sector

The part of the economy consisting of individuals, firms and **non-profit institutions serving households**. For some classification purposes, the private sector includes state-owned enterprises such as the BBC and other public corporations with outputs paid for by individuals directly rather than through taxation.

## Provisional results

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

## Public sector

The part of the economy that is state-provided, including central and local government, schooling, health and social services, policing and the armed forces.

## Public sector securities

See **securities**.

## Qualifying year

A tax year during which someone has built up National Insurance payments, whether through work (earning at least

the annual **Lower Earnings Limit** in a tax year), being credited while on certain benefits, or through additional payments.

## Quartile

See **percentiles**.

## Quintile

See **percentiles**.

## Quoted shares

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

## Recently retired

Where the pensioner is less than five years over State Pension Age (60 for women and 65 for men).

## Retail Prices Index (RPI)

An average measure of the change in the prices of goods and services bought for consumption by the vast majority of households in the UK.

## Retirement

There is no widely agreed definition of retirement. Generally, it refers to someone who used to be in employment and has withdrawn from the labour market but there is no agreement on whether people should only be considered to be retired if their exit from the labour market is permanent, or if they are in receipt of a pension, or other factors.

## Retirement annuity contract

The forerunner of modern personal pensions.

## Salary-related scheme

See **defined benefit scheme**.

## Salary sacrifice

Salary sacrifice, also known as forgoing, occurs when an employee gives up part of the cash pay due under their contract of employment, in return for some other form of benefit. For example, an employee may forgo an increase in salary in return for an equal increase in employer contributions towards their pension. Sacrifices of this type have tax and National Insurance incentives for employees, and National Insurance incentives for employers.

## Save as you earn

A government scheme, abolished in 1994, that gave tax concessions to money saved regularly from salaries and paid into certain bank, building society and National Savings accounts.

## Savings Credit

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

## Scheme status

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

## Seasonally adjusted

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

## Second tier

See **tier**.

## Sectionalised scheme

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

## Securities

A term describing both debt and equity instruments, such as bonds and shares. **Corporate securities** are issued by the private sector, while **public sector securities** are issued by

central or local government. The bulk of **government securities** is formed by central government bonds, often referred to as **gilts**.

## Self-administered pension fund

An occupational pension fund in which the assets are invested by the trustees or an internal or external investment manager, rather than through an insurance policy with an insurance company.

## Self-Invested Personal Pension Plan (SIPP)

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

## Share

See **equity**.

## Socio-economic class

The classification of individuals based on their occupation. It has been replaced in official statistics and surveys by the **National Statistics Socio-economic Classification (NS-SeC)**.

## Stakeholder Pension

Available since 2001, a flexible, portable, defined-contribution personal pension arrangement (provided by insurance companies) with capped management charges, that must meet the conditions set out in the Welfare Reform and Pensions Act 1999 and be registered with **The Pensions Regulator**. They can be taken out by an individual or facilitated by an employer. Where an employer of five or more staff offers no occupational pension and an employee earns over the **Lower Earnings Limit**, the provision of access to a stakeholder scheme with contributions deducted from payroll is compulsory.

## Stakeholder price cap

The Stakeholder Pension price cap is the maximum permitted **Annual Management Charge (AMC)**, currently 1.5% for the first ten years of the policy and 1% thereafter.

## Standard Industrial Classification

The classificatory system used in official statistics to place business establishments and other statistical units into the area of industry in which they are engaged.

## Standard Occupational Classification (SOC)

The classificatory system used in official statistics to place individuals into occupational groups.

## State Earnings-Related Pension Scheme (SERPS)

The forerunner of the **State Second Pension**, which replaced SERPS on 6 April 2002. It provided an earnings-related pension based on **National Insurance** contributions, in addition to the **Basic State Pension**.

## State Pension Age (SPA)

The age at which an individual can claim their state pension, although people can choose to defer their pension. SPA is currently 65 for men and 60 for women but will gradually increase for women to 65 between 2010 and 2020.

## State Second Pension (S2P)

The successor, from 6 April 2002, to the **State Earnings-Related Pension Scheme** (SERPS). It currently provides an earnings-related pension based on **National Insurance** contributions, in addition to the **Basic State Pension**.

## Superannuation

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

## Support ratio

See **dependency ratio**.

## Tax Exempt Special Savings Account (TESSA)

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

## Tax-free lump sum

A tax-free sum of up to 25% of their pension fund that a member can take from the fund when they first take their pension.

## Tax relief

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

## The Pensions Regulator (TPR)

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

## Third tier

See **tier**.

## Tier

In order to allow international comparisons of pension systems, pension provision is categorised into 'tiers'. The following definitions are generally used for tiers as they apply to the UK pensions system. The **first tier** consists of the **Basic State Pension** and means-tested benefits. The **second tier** consists of the earnings-related part of the state pension over and above the basic pension, provided by the **State Second Pension (S2P, formerly SERPS)**, and all personal and occupational pensions. In the UK, it is mandatory for employees to make second-tier provision for earnings that fall between a given upper and lower limit. The self-employed are not eligible to join S2P and their second-tier provision is generally restricted to personal or stakeholder pensions. The **third tier** consists of **Additional Voluntary Contributions** and some personal pensions held in addition to second tier provision.

## Transfer payment

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

## Underpin

See **hybrid scheme**.

## Unemployed

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

## Unfunded scheme

A defined-benefit scheme, usually public sector, in which liabilities are not underpinned by a corresponding fund or funds. Any contributions made by or on behalf of active members are used towards benefit payments for pensioner members (see **Pay As You Go**).

### Unit trusts

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

### Unquoted shares

See **quoted shares**.

### Unsecured pension (USP)

A form of **income drawdown**, available only to those aged under 75. A USP allows a pension scheme member to continue to invest their pension fund while drawing a limited income.

### Upper Earnings Limit (UEL)

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

### Upper Earnings Threshold (UET)

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

### Weighted average

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

### Winding-up

See **scheme status**.

### Working age population

Generally defined as those aged 16-59 for women and 16-64 for men. However, some analyses in Pension Trends use a starting age of 20 because of limitations in the data available.