**WGA Pensions Glossary – Jargon Buster**

|  |
| --- |
| **A** |

**Adjusted Income**

If someone is a high earner and has Threshold Income above certain limits then it is necessary to check their Adjusted Income levels to see if the Tapered AA limit applies to them.

**Alternative Annual Allowance**

Where someone has triggered the Money Purchase Annual Allowance (MPAA) the standard Annual Allowance limit which would apply to Defined Benefits schemes is then reduced to a lower level. High earners may be subject to an even lower limit.

**Alternatively Secured Pension**

A legacy drawdown plan for individuals over age 75 which ceased to exist from 6th April 2011.

**Annual Allowance**

This is an annual limit on the total level of pension contributions, known as the “pension input amount”, paid by the scheme member and/or their employer into a pension scheme. Where the pension input amount is over this limit then tax charges can apply to the scheme member.

**Annual Management Charge**

The cost deducted on an annual basis to pay for the management of your pension plans’ investments.

**Annuity**

A retirement product bought with benefits in a pension plan which provides a guaranteed and regular income for life.

**Appropriate Personal Pension (APP1)**

A legacy personal pension plan which was used prior to 6th April 2012 to contract out of the additional state pension. Benefits built up from these contracted out payments were called Protected Rights.

**Assessment Period**

Where an employer becomes insolvent and can therefore no longer support its own Defined Benefits scheme the Pension Protection Fund (PPF) can step in to take over the scheme. Initially the scheme will enter an ‘assessment period’ where the PPF will check if the scheme members qualify for PPF compensation.

**Automatic Enrolment**

A law which requires employers to automatically enrol certain workers into a pension scheme. The pension scheme used must meet strict conditions.

**AVC**

Additional Voluntary Contribution schemes are separate money purchase plans which are linked to a main employer’s pension scheme. They allow the member of staff to pay extra contributions where the main scheme does not allow this option.

|  |
| --- |
| **B** |

**Beneficiary**

An individual(s) who receives benefits from a pension plan on the death of the pension scheme member.

**Beneficiary Drawdown**

On death of the original policyholder, where the scheme offers this option, the beneficiary can choose to use the pension death benefits to set up a Beneficiary Drawdown plan rather than receive a lump sum or buy an annuity with the benefits.

**Benefit Crystallisation Event (BCE)**

One of 13 specific events which would trigger a test of the individual’s pension benefits against the Lifetime Allowance limit.

**Block Transfer**

A transfer of pension benefits which meets certain strict conditions in order for the plan’s special feature (such as higher tax free cash or a lower pension age) to be protected under the new plan. If a block transfer had not been used then the special feature would be lost. In brief, it is the transfer of all of the member’s pension benefits as a single transaction at the same time as at least one other scheme member to a new pension plan where the individual has not held benefits for more than 12 months.

**Buyout Plan**

More commonly known as a Section 32 plan, this is a single person occupational pension which was used to secure the individual pension benefits for a member of staff when their original pension scheme closed down.

|  |
| --- |
| **C** |

**Capped drawdown**

This is a type of retirement income product that was only available before 6 April 2015. It’s similar to a flexible retirement income product but there’s a cap on the maximum level of income that can be taken from the plan. The limits are based on rates issued by the Government Actuaries Department.

If the amount of income is more than the capped limit the money purchase annual allowance will apply to any savings made into a money purchase pension plan.

**Carry forward rule**

The pension [carry forward rule](https://www.pensionbee.com/pensions-explained/pension-contributions/pension-carry-forward-rule) allows you to make pension contributions above the [annual allowance](https://www.pensionbee.com/pensions-explained/pension-contributions/pension-contribution-limits) and still receive [tax relief](https://www.pensionbee.com/pensions-explained/pension-basics/pension-tax-relief), by carrying forward any unused allowance from the previous three years. For personal contributions, you can carry forward unused allowance up to the value of your annual earnings.

**Commutation**

The act of giving up some pension income entitlement in order to provide an element of Pension Commencement Lump Sum / Tax Free cash.

**Contracting out**

This is where you or your employer had the option to opt out of the State Second Pension (State Earnings Related Pension Scheme). In exchange, you paid lower National Insurance contributions and higher pension contributions. It’s not been possible to contract out of the State Pension since April 2016.

**Contribution charge**

A contribution charge is a percentage fee taken by your pension provider every time you pay into your pension. This is usually deducted from either your pension pot or your contribution.

**CPI**

The Consumer Prices Index, which is the general index of consumer prices published by the Statistics Board.

**Crystallised pension**

When you cash in your [personal pension](https://www.pensionbee.com/pensions-explained/pension-types/what-is-a-personal-pension) with [drawdown](https://www.pensionbee.com/pensions-explained/pension-types/what-is-flexi-access-drawdown) or an [annuity](https://www.pensionbee.com/pensions-explained/pension-types/what-is-a-pension-annuity), it becomes a crystallised pension.

**Crystallised funds pension lump sum**

Also known as a pension commencement lump sum (PCLS) or [tax-free cash](https://www.pensionbee.com/pensions-explained/pension-withdrawal/should-i-take-a-lump-sum-from-my-pension). When crystallising your pension, you can choose to take 25% of your savings as a tax-free lump sum.

|  |
| --- |
| **D** |

**Defined benefit pension scheme**

[Defined benefit](https://www.pensionbee.com/pensions-explained/pension-types/what-is-a-defined-benefit-pension) (DB) pensions, also called final salary pensions, are a type of [workplace pension](https://www.pensionbee.com/pensions-explained/pension-types/what-is-a-workplace-pension) that pays you a retirement income based on your salary and how long you’ve worked for your employer.

**Defined contribution pension scheme**

[Defined contribution](https://www.pensionbee.com/pensions-explained/pension-types/what-is-a-defined-contribution-pension) (DC) pensions, also called money purchase pensions, are the most common type of [workplace](https://www.pensionbee.com/pensions-explained/pension-types/what-is-a-workplace-pension) and [personal pension](https://www.pensionbee.com/pensions-explained/pension-types/what-is-a-personal-pension). Your retirement income will depend on how much you’ve saved into your defined contribution pension and how your investment has performed over time.

**Dependant**

A person who was married to, or a civil partner of, the member at the date of the member’s death is a dependant of the member.

Additionally, if the rules of the pension scheme so provide, the above test can be extended to apply not only at the date of the member’s death, but to extend to the point in time when the member first became actually entitled to a pension under the pension scheme.

A child of the member (including a legally adopted child) is a dependant of the member if the child:

* has not reached the age of 23,
* has reached age 23 and, in the opinion of the scheme administrator, was at the date of the member’s death dependent on the member because of physical or mental impairment

A person who was not married to the member or was not in a civil partnership with the member at the date of the member’s death and is not a child of the member is a dependant of the member if, in the opinion of the scheme administrator, at the date of the member’s death the person was:

* financially dependent on the member
* the person’s financial relationship with the member was one of mutual dependence (the scheme rules will set out the criteria the scheme will use to determine mutual dependency)
* the person was dependent on the member because of physical or mental impairment.

**Dependant's pension annuity**

Also known as a [joint life annuity](https://www.royallondon.com/articles-guides/pensions-and-retirement/pensions-glossary/#joint-life-annuity). In the event of you dying, a surviving spouse, civil partner, or dependant will continue to get some or all of the income you were receiving.

Because a joint life annuity pays an income to your chosen dependant if you die first, it will reduce the income you receive during your lifetime. Normally you must decide at the time you buy the joint life annuity who’ll receive the continuing annuity payments on your death.

**Drawdown**

Income [drawdown](https://www.pensionbee.com/pensions-explained/pension-types/what-is-flexi-access-drawdown), also called flexible retirement income product or pension drawdown, allows you to leave your pension savings invested and take cash as and when you need it during retirement.

**DWP**

The [Department for Work and Pensions](https://www.gov.uk/government/organisations/department-for-work-pensions) (DWP) is a branch of the government that’s responsible for welfare, state pensions and child maintenance policy in the UK.

|  |
| --- |
| **E** |

**Early leaver**

A person who ceases to be an active member of a pension scheme, other than on death, without being granted an immediate retirement benefit.

**Earmarking**

A process used on divorce where some of the pension benefits due to a member are paid to his/her ex-spouse, as directed by a court at the time of their divorce.

**Eligible Jobholder**

Term used to describe a worker who meets the requirements to be automatically enrolled in a workplace pension scheme. The eligible jobholder and the employer must make contributions at a set minimum level to the scheme.

**Entitled Worker**

This is an term used when assessing workers for the purpose of auto-enrolment. Entitled workers do not need to be auto enrolled but they have a right to join the employer’s auto-enrolment pension scheme if they wish. Employer does not need to make contributes for such workers unless this is a requirement under that scheme.

**Enhanced annuity**

An enhanced annuity takes health and lifestyle factors into account when working out the amount of income that can be bought using a pension pot. This means a medical condition e.g. being a smoker, having high cholesterol or being overweight, could boost the amount of retirement income received. This type of annuity is underwritten by the provider to produce a personalised income amount.

**Enhanced Protection**

A type of lifetime allowance protection. This enables an individual to build up more than the standard limit of tax efficient pension savings. It is no longer possible to apply for this type of protection. in a registered pension sch. Allows you to register to effectively maintain the current value of your pension benefits just before A-day. Those who registered for this type of protection effectively maintain the current value of their pension benefits just before 6th April 2006.

**Escalation**

Describes how pension income grows each year once in payment. Increases could be at a fixed rate each year e.g. 3% or in line with the change in a measure of inflation e.g. Consumer Prices Index (CPI) or Retail Price Index (RPI). Where no escalation is included the pension income will not increase overtime.

|  |
| --- |
| **F** |

**Final salary pension**

A type of defined benefit occupational pension scheme. It pays a pension based on the number of years the employee was a member of the scheme, their salary (possibly averaged over a number of years) and an accrual rate e.g. 1/60th.

**Financial Ombudsman Service (FOS)**

The Financial Ombudsman Service is an independent public body that helps settle individual financial disputes between customers and businesses.

**Fixed Protection**

HMRC rules limit the amount of tax efficient pension savings an individual can build up. This is known as the lifetime allowance. Most people have a standard lifetime allowance but some are able to apply for fixed protection that allows them to build up a higher level of pension savings. Three types of fixed protection called 2012, 2014 and 2016 exist and each gives a different level of protection.

**Flexi access drawdown**

A way of taking benefits from money purchase pension schemes that allows an income and/or lump sums to be taken directly from the pension fund while leaving the rest invested. There is no limit on the amount you can take out each year. This type of drawdown was introduced from 6th April 2015.

**Freestanding Additional Voluntary Contributions (or FSAVC)**

These are extra contribution made to a money purchase (defined contribution) plan that is not part of the workplace pension scheme. The facility to pay AVCs to a financial provider of the member’s choice to secure additional benefits. FSAVC schemes provide retirement benefits on a money purchase basis.

|  |
| --- |
| **G** |

**Guaranteed annuity rate (GAR)**

The amount of income provided from an annuity is determined by the annuity rate and the value of the pension fund at the date of the annuity purchase.

Annuity rates fluctuate with market conditions, but some plans contain guaranteed annuity rates (GARs) that were written into the contract terms when the plans were established.

The GARs that apply to older pension plans are often higher than current annuity rates and can therefore provide a higher level of income. These guarantees are lost if the pension is transferred to another plan, so it is important to assess their worth against current annuity rates before proceeding with a transfer.

**Guarantee period**

Annuities can be purchased so that they will make regular payments for a set period (up to 30 years), even if the member dies earlier. If the member dies during the guarantee period, payments will continue to be paid to the dependant(s) for the remainder of the guarantee period.

**Guaranteed Minimum Pension (GMP)**

This is a workplace pension scheme that provides a minimum level of benefit for individuals who contracted out of the State Earnings Related Pension Scheme (SERPS) between 6th April 1978 and 1997.

The GMP was set up to provide the individual with broadly the same level of income they would have received had they remained contracted into SEPRPs.

**Guaranteed drawdown**

Guaranteed drawdown combination elements you would find in an annuity with that of income drawdown. It offers a base level of guaranteed income with the option to take additional withdrawals if required.

|  |
| --- |
| **H** |

**HMRC**

HM Revenue and Customs (HMRC) is responsible for collecting tax from UK individuals and businesses. It also provides tax relief for eligible pension contributions.

**Hybrid Scheme**

An occupational pension scheme that combines both defined benefit and defined contribution structures

|  |
| --- |
| **I** |

**Ill Health Retirement**

Where an individual’s pension scheme administrators have received medical evidence that the individual is incapable of carrying on with their current employment due to illness, injury or disability and has actually stopped work as a result, then pension benefits can be paid out earlier than the usual minimum age.

**Impaired Life Annuity**

This is a retirement income for an individual that has a medical condition or a lifestyle factor such as being a smoker or being overweight.

In this situation, it is possible to obtain enhanced annuity rates as there is an expectation that the annuity will be paid for a shorter period than normal.

Only certain companies offer these types of annuity plans and they will require detailed information in order to determine the appropriate personalised annuity income level that they will offer the individual which will be higher than the usual levels available.

**Income Drawdown**

See Flexi-access Drawdown

**Income Withdrawal**

See Flexi-access Drawdown

**Individual Protection (2014 or 2016)**

Over time, the Lifetime Allowance limit has gradually reduced and each time this happened the Government allowed people to maintain a higher protected Lifetime Allowance limit.

Individual Protection required the individual to meet certain minimum fund value conditions in order for them to obtain this protection but crucially it did allow them to carry on paying contributions in the future if they wished.

|  |
| --- |
| **J** |

**Joint Life Annuity**

A retirement income product which is set up on a joint basis, typically with a husband and wife. When the original annuitant dies their surviving spouse, civil partner or dependent will then receive some or all of the income going forwards. This option will reduce the amount of income paid to the individual who sets up the plan.

|  |
| --- |
| **K** |

|  |
| --- |
| **L** |

**Letter of authority (LOA)**

A letter of authority (LOA) is a document that must be signed by a customer authorising a pension provider to contact another financial services company of which they are a customer. Once an LOA is received, documents and information can be shared directly between providers. LOAs may be required in order to transfer a pension more efficiently.

**Lifetime allowance**

The [lifetime allowance](https://www.pensionbee.com/pensions-explained/pension-withdrawal/pension-lifetime-allowance) is applies across all of your pensions. It is an overall amount that an individual is permitted to benefit from all combined pension plans (excluding the state pension).

**Lifetime allowance protection**

Lifetime allowance protection is an insurance that safeguards savers from reductions in the lifetime allowance. There are two protections currently available to eligible savers, Fixed Protection 2016 and Individual Protection 2016.

Historically there have been previous versions of Fixed and Individual Protection as well as Enhanced and Primary Protection although these are no longer available.

**Lifetime allowance**

Lifetime allowance (LTA) was previously defined as a limit of pension benefits that could be built up without an additional tax charge applying. Until 6 April 2023, if you took benefits from your plan that were more than the lifetime allowance, you paid a charge on the excess known as the LTA charge.

From 6 April 2023, the LTA charge is removed, although the lifetime allowance could affect your pension rights in other ways. LTA will be completely abolished from 6 April 2024.

**Lifetime annuity**

A retirement income product that guarantees to pay you a regular income for the rest of your life. You can choose to add features to your annuity, such as providing an income for your spouse or partner if you die before them, or protecting your income against the effects of inflation.

You will need to decide how important these features are to you as the choices you make will affect the amount of income you receive during your lifetime.

Loyalty bonus

Some pension schemes reward customers with a loyalty bonus after a set number of years. This could be paid by giving back some of your annual management charge (AMC) or as a lump sum when you come to take your pension savings, depending on the scheme. Usually if you choose to leave a pension scheme that has a loyalty bonus you’ll lose this benefit.

|  |
| --- |
| **M** |

**Master Trust**

A type of pension scheme that multiple employers can use, with Independent Trustees who look after pension savings on behalf of all the employees who are members. Also known as a ‘multi-employer scheme’.

**Member**

A person who, having joined a pension scheme, has built up benefits under that scheme.

**Member-Nominated Trustee**

A trustee chosen by the members of an occupational pension scheme.

[**MoneyHelper**](http://www.moneyhelper.org.uk/)

MoneyHelper offers a single place for people to go to obtain clear information about their money and pension choices. It is the consumer brand from the Money and Pensions Service, bringing together the services previously provided by The Pensions Advisory Service and the Money Advice Service. They also provide the Pension Wise service.

**Money Purchase Annual Allowance (MPAA)**

The money purchase annual allowance is a limit on how much money can be saved into a defined contribution pension tax free, after an individual has started to draw an income from a pension or triggered the MPAA in specific circumstance set out by HMRC.

**Money Purchase Pension Scheme**

A type of scheme were the contributions paid in are invested for long-term growth until retirement. At retirement the accumulated pot is used to provide benefits either via annuity purchase or flexi access drawdown.

**Mortality**

The risk of death of a particular individual based on factors such as age, health, gender, and lifestyle.

**Multi-employer pension scheme**

A pension scheme in which more than one employer participates.

|  |
| --- |
| **N** |

**NEST (National Employment Savings Trust)**

A not-for-profit defined contribution pension scheme established for employers who have not set up an alternative arrangement to comply with auto-enrolment requirements.

**Net Pay Arrangement**

One of the two ways that pension contributions can be administered. Where a scheme uses the net pay method, employee contributions are taken from pay before income tax is deducted. This means the member receives full tax relief straightaway on their contributions. The alternative method is called relief at source and works differently.

**New State Pension**

This was introduced in April 2016, replaced the basic State Pension (bSP) and the additional State Pension with a single tier of State Pension income.

**Nominees**

The people, charities or organisations or ‘nominated’ by a pension scheme member to receive any death benefits from the pension scheme on the death of the member. Sometimes also called ‘beneficiaries’.

**Non-Contributory Pension Scheme**

A pension scheme where no contributions are paid by the members, but they still accrued benefits in the scheme.

**Non-Eligible Jobholder**

Somebody who is not eligible for automatic enrolment but has the choice to opt-in to a workplace pension scheme. Employer contributions must be paid if the individual chooses to join the scheme.

**Normal Minimum Pension Age (NMPA)**

Generally, this is the earliest age at which benefits can normally be access from a pension scheme. It is currently age 55 but this will rise to age 57 from 6th April 2028. There are some exceptions that mean the ability to take money earlier than these ages due to ill health, or if a member qualifies for an earlier protected pension age, will not be affected.

**Normal Retirement Age (NRA)**

This is the age at which a member of a pension scheme normally becomes entitled to receive his/her retirement benefits.

|  |
| --- |
| **O** |

**Opt In**

This is the process for some members of staff, who aren’t eligible for automatic enrolment, to choose to join their employer’s pension scheme.

**Opt Out**

Employees who have been automatically enrolled into a scheme can choose to leave the Scheme. The period for opting out lasts one calendar month after the employee is enrolled, and they will be entitled to full refund of contributions if the option is exercised.

**Open market option**

The open market option allows someone approaching retirement to ‘shop around’ for alternative annuity providers. This is so they can get the best annuity rate when they convert their pension savings into an income, rather than accepting the default annuity rate offered by their current pension provider.

**Occupational Pension Scheme**

A pension scheme offered by an employer, providing pension and other benefits to people in its employment.

|  |
| --- |
| **P** |

**PCLS – Pension Commencement Lump Sum (PCLS)**

This is also referred to as a ‘tax-free lump sum’ and can be taken when an individual accesses their pension arrangement for the first time. This is usually paid tax-free and generally restricted to 25% of the value of the pension rights.

**Pension credit**

Pensions can be split when married couples/civil partners agree to divorce/have their civil partnership dissolved. The pension credit is the amount received by one ex-spouse/civil partner from the other’s pension plan.

**Pension debit**

Pensions can be split when married couples/civil partners agree to divorce/have their civil partnership dissolved. The pension debit is the amount deducted from one ex-spouse’s pension/former civil partner’s pension and awarded to the other.

**Protected tax-free cash**

Tax-free cash (also known as pension commencement lump sum) is the money you can take as lump sum when you begin to take your pension savings. It’s usually 25% of the fund value.

Some members of occupational pension schemes/former occupational pension schemes are entitled to take more than 25% as a lump sum.  This higher amount may be lost if they transfer their benefits to another pension plan.

**Protected rights pension**

This is a type of personal pension that was funded by national insurance contribution rebates. These rebates were made available for investment into a personal pension when an individual chose to contract out of the additional state pension (the additional state pension was a state pension provided in addition to the basic state pension for those who paid higher levels of national insurance contributions).

|  |
| --- |
| **Q** |

**Qualifying Earnings Band**

The law requires all employers to automatically enrol certain workers into a pension scheme. When in the scheme there is a minimum level of contributions that need to be paid and 4 options to choose from as to how this minimum is calculated.

The default basis used most commonly is where contributions are based on a certain portion of earnings falling within a band which has a lower and upper limit and this is known as the qualifying earnings band.

Earnings above or below this band are not used to work out the contribution levels.

**Qualifying Recognised Pension Scheme (QROPS)**

Where an overseas pension scheme meets certain minimum criteria it is possible for them to be regarded as a QROPS by HMRC.

If they receive this status then pension benefits in a UK registered pension scheme can be transferred without it resulting in a tax penalty.

These rules are designed to allow individuals who emigrate abroad to take their pension benefits with them.

|  |
| --- |
| **R** |

**Relevant Earnings**

The maximum tax relievable gross contribution that can be made to a pension plan is limited to 100% of an individual’s relevant earnings in the current tax year. Relevant earnings include elements such as wages, bonus, overtime, commission and net profits from self employment etc.

**Relief At Source (RAS)**

A pension scheme which has chosen to use the RAS system will accept pension contributions paid by the individual net of Basic Rate Tax Relief and the pension scheme then grosses this up by 20% before claiming the tax relief back from the government.

**Retirement Annuity Contract (RAC)**

Also know as Section 226 (s226) plans and Retirement Annuity Plans these are old pension plans which ceased to be available from July 1988.

Despite being legacy contracts there are still significant numbers of plans in existence. These types of plans can have quite unique features such as guaranteed income levels / annuity rates, death benefits which are a return of premiums only and many are not written in trust so can form part of the estate on the individual’s death.

**Revaluation**

Pension benefits built up in a Defined Benefits scheme need to be increased each year in order to keep pace with inflation and this is known as revaluation.

|  |
| --- |
| **S** |

**Salary sacrifice**

Your employer may offer [salary sacrifice](https://www.pensionbee.com/pensions-explained/pension-types/what-is-a-salary-sacrifice-pension) as part of your [workplace pension](https://www.pensionbee.com/pensions-explained/pension-types/what-is-a-workplace-pension) scheme. Salary sacrifice gives up a portion of your salary, which is paid into your pension by your employer alongside their own employer contribution. This allows both you and your employer to pay lower National Insurance Contributions by lowering your qualifying salary.

There are two main types of salary sacrifice:

* Simple or ‘standard’ salary sacrifice reduces your gross salary which could increase your net income, also called take home pay, by decreasing how much tax you need to pay on your salary.
* SMART (Save More And Reduce Tax) salary sacrifice reduces your salary by the amount you would normally pay into your pension, achieving the same amount of take home pay but saving more into your pension by paying less tax on pension contributions.

**Scheme administrator**

The person or persons appointed in accordance with the pension scheme rules to be responsible for the discharge of the functions conferred or imposed on the scheme administrator of the pension scheme.

This person must be resident in the United Kingdom, an EU member state or in Norway, Liechtenstein or Iceland (EEA states which are not EU states). The person must have made the declarations to HMRC.

**Scheme manager**

The person or persons administering, or responsible for the management of, the pension scheme.

**Sponsoring employer**

In relation to an occupational pension scheme the employer, or any of the employers, to or in respect of any or all of whose employees the pension scheme has, or is capable of having, effect so as to provide benefits.

**Self-Invested Personal Pension (SIPP)**

A [Self-Invested Personal Pension](https://www.pensionbee.com/pensions-explained/self-employed/what-is-a-sipp) (SIPP) is a type of defined contribution [personal pension](https://www.pensionbee.com/pensions-explained/pension-types/what-is-a-personal-pension) that lets you choose how your savings are invested. You can manage your investments yourself, or you can appoint a fund manager to make investment decisions for you.

**State Earnings-Related Pension Scheme (SERPS)**

SERPS, also called the Additional State Pension, was in place from 1978 to 2002, offering a top up on the basic [State Pension](https://www.pensionbee.com/pensions-explained/pension-types/what-is-the-state-pension). Many people opted out of SERPS, which meant the government paid their extra National Insurance Contributions (NICs) into a [personal pension](https://www.pensionbee.com/pensions-explained/pension-types/what-is-a-personal-pension) instead, called a protected rights pension.

If you opted out of SERPS, you will have paid lower NICs than people who paid into SERPS, so you’ll be entitled to a lower State Pension amount. If you’re entitled to SERPS, you’ll start receiving it upon reaching State Pension age.

**State Pension**

The [State Pension](https://www.pensionbee.com/pensions-explained/pension-types/what-is-the-state-pension) is a regular payment you can get from the government once you reach State Pension age. The amount of State Pension you’re eligible to receive is based on your National Insurance record, and whether you have been making National Insurance Contributions during your working life. Currently, both men and women can [claim their State Pension](https://www.pensionbee.com/pensions-explained/pension-rules/pensions-age) from the age of 66. However, this is set to increase to 67 by 2028.

**State Pension age**

You can claim [State Pension](https://www.pensionbee.com/pensions-explained/pension-types/what-is-the-state-pension) once you reach [State Pension age](https://www.pensionbee.com/pensions-explained/pension-rules/pensions-age), which is currently age 66, but rising to 67 by 2028.

The State Pension age is different to the retirement age for [personal](https://www.pensionbee.com/pensions-explained/pension-types/what-is-a-personal-pension) and [workplace pension](https://www.pensionbee.com/pensions-explained/pension-types/what-is-a-workplace-pension), which is currently age 55 (rising to 57 from 2028).

**Successor**

An individual (so the successor cannot be a trust, charity or company for example) who has been nominated by any of the following:

* a dependant of the member
* a nominee of the member
* a successor of the member
* the scheme administrator (but in relation to any particular benefits under an arrangement relating to a dependant, nominee or successor of the member (the ‘beneficiary’) in that capacity, an individual nominated by the scheme administrator only counts as a successor of the member at any time after the beneficiary’s death if there is then no individual, or charity, nominated by the beneficiary in relation to the benefits).

Being nominated in relation to particular benefits under an arrangement includes a reference to being nominated in relation to:

* the scheme
* arrangements that include the arrangement
* the arrangement
* benefits that include the particular benefits.

Where a successor of the member is an individual who is also a dependant of the member, the individual in the capacity of a successor of the member is to be treated as not also being a dependant of the member.

|  |
| --- |
| **T** |

**Tapered annual allowance (TAA)**

The normal annual allowance can be reduced or ‘tapered’ for high earners.

If you’ve got a high adjusted income, your annual allowance may be reduced. This is called the tapered [annual allowance](https://www.pensionbee.com/pensions-explained/pension-contributions/pension-contribution-limits). Different levels have applied in earlier years.

Similar tapering applies to the alternative annual allowance if you’re in a defined benefit pension.

**Tax free cash**

(See Pensions Commencement lump sum)

When you take your pension at retirement, you can withdraw some or all of your pot as a cash lump sum. The first 25% of this withdrawal is tax-free. You pay income tax on the remaining 75%.

**Tax relief**

Most UK taxpayers get [tax relief](https://www.pensionbee.com/pensions-explained/pension-basics/pension-tax-relief) on their pension contributions. HMRC will usually award basic rate tax relief on personal contributions subject to certain limits.

Higher rate relief may be available via a self-assessment return.

Employer contributions are always paid gross but qualify as a business expense.

|  |
| --- |
| **U** |

**Unauthorised Payments/Benefits**

Payments or benefits other than those allowed from a UK registered pension scheme. Payment of unauthorised payments/benefits result in additional tax charges.

**Uncrystallised Pension Fund**

A pension pot from which benefits have not been taken.

**Uncrystallised Funds Pension Lump Sum (UFPLS)**

A way of taking benefits from a money purchase (defined contribution) pension pot as a one off lump sum or series of lump sums.

25% of each withdrawal is tax free and 75% is subject to income tax.

|  |
| --- |
| **V** |

**Vesting**

**Is a phrased used to describe putting pension benefits into payment.**

|  |
| --- |
| **W** |

**Winding up**

The ability where an employer can decide to close a pension (in lieu of another scheme) and secure the benefits for all existing scheme members in alternative ‘personal’ arrangements. This reduces ongoing liability for an employer.

This is usually associated with Defined Benefit (DB) schemes.

**With-Profits fund**

[With profits funds](https://www.pensionbee.com/pensions-explained/find-transfer-pensions/with-profits) are a type of ‘pooled investment’ fund, meaning that you pay into the fund alongside other members. The funds then invested in stocks, shares, equities, bonds and property over a set period of time. With profits funds put in place ‘smoothing’. This means investors in with profits funds don’t get to see the actual value of the underlying assets. The value of the underlying fund changes daily, but customers’ fund values grow by a steady rate, called the regular bonus rate, which is calculated annually.

This smoothing mechanism helps restrict the variation in payout at the point of retirement. Customers can still get their money out at other times: but for smoothing to work, there needs to be a mechanism to protect the whole fund from being depleted by investors trying to exit after a market fall. If a customer wishes to withdraw from the fund early, at a time when the market value of the fund’s reduced, the customer may find that the actual value of the underlying investments is lower. The difference between the fund value and the underlying investments is called a ‘market value reduction’.

**Workplace pension (WPS)**

A [workplace pension](https://www.pensionbee.com/pensions-explained/pension-types/what-is-a-workplace-pension) is a long-term investment product designed to help you save for retirement.

Workplace pensions differ from [personal pensions](https://www.pensionbee.com/pensions-explained/pension-types/what-is-a-personal-pension) as they are set up by your employer. If eligible, you’re required to pay a minimum percentage of your qualifying earnings into your pension (which includes tax relief from the government), whilst your employer must also pay in a minimum amount. The earliest you can access a workplace pension is from age 55 (rising to 57 from 2028).

|  |
| --- |
| **X** |

|  |
| --- |
| **Y** |

|  |
| --- |
| **Z** |

**Appendix**

**Common abbreviations for pension schemes**

APP1 Appropriate personal pension

AVC Additional Voluntary Contribution

BFAD Beneficiary Flexi-access Drawdown

CIMP Contracted in Money Purchase Scheme

COMP Contracted Out Money Purchase Scheme

DB Defined Benefit

DIS Death in Service

FAD Flexi-access Drawdown

FSAVC Free Standing Additional Voluntary Contribution

IVPP Immediate vesting Personal Pension

OMO Opens Market Annuity

PP Personal Pension

SIPP Self Invested Personal Pension

SSAS Small Self Administered Scheme

UFPLS Uncrystallised Funds Pension Lump Sum

WPS Workplace Pension Scheme