

Pensions Simplification Jargon Buster

The table below explains many of the new terms introduced by the Government's changes in pensions legislation. You are increasingly likely to come across these terms now we have passed A-Day – the date that most of the new pensions tax laws came into force.

To help with the transition from the old to the new pensions law, some of the pensions terms you may have seen before A-day are also included and explained. The list is in alphabetical order, and terms that are highlighted in red are explained elsewhere in the document.

Pensions Term	Meaning
A-Day	6 April 2006
Alternatively Secured Income (ASI)	<p>The name given to Income Withdrawals made by those policyholders who are over the age of 75 years. It is designed for use by those prevented from buying an annuity because of their religious beliefs, but it can be used by anyone.</p> <p>The maximum amount which can be taken in withdrawals under ASI equals 70% of the annuity which could otherwise be bought by an individual who is aged 74 years and 364 days.</p>
Alternatively Secured Pension (ASP)	Another name for Alternatively Secured Income .
Annual Allowance	<p>The limit of Tax-Relievable Pension Contributions that can be made, by/for any one individual, in a tax year.</p> <p>It has been set for the first five tax years as follows: 2006/07 - £215,000 2007/08 - £225,000 2008/09 - £235,000 2009/10 - £245,000 2010/11 - £255,000 It is expected to increase each subsequent tax year.</p>
Annual Allowance Charge	A tax charge made on an individual when contributions in excess of the Annual Allowance are made by, or for, that individual in a tax year. The tax charge is, initially, 40% of the excess contributions.
Annuitant	An individual in receipt of a regular income from an annuity policy.
Annuity Protection Lump Sum Death Benefit	A lump sum paid when an Annuitant dies, prior to the age of 75, in respect of future annuity instalments. Such a lump sum would be subject to a tax charge, known as a Special Lump Sum Death Benefits Charge , of 35%.
Benefit Crystallisation Event	<p>A Benefit Crystallisation Event occurs whenever any sort of retirement benefit is paid and/or when a lump sum is paid on death before retirement.</p> <p>Such events would, therefore, include the following:</p> <ul style="list-style-type: none"> • Taking a pension from your Occupational Pension Scheme. • Purchasing an annuity from pension funds held under a Retirement Annuity Contract • Taking a tax-free lump sum and starting Income Withdrawals

	<p>from your Personal Pension.</p> <p>Upon each Benefit Crystallisation Event, a check must be made against your Personal Lifetime Allowance to see if a Lifetime Allowance Charge has to be deducted.</p>
Carry Back	This option is no longer available. An option to have contributions to a Personal Pension Scheme or a Retirement Annuity Contract paid in one tax year treated, for tax purposes, as if they were paid in an earlier year, normally the previous year.
Carry Forward	This option is no longer available. An option to maximise contributions, and tax relief, to a Retirement Annuity Contract by mopping up unused allowances from earlier years.
Cash Balance Pension Scheme	A special type of money purchase scheme where the annual rate of investment growth is guaranteed, regardless of the actual growth achieved by the underlying assets of the scheme.
Code of Practice	A set of guidelines issued by The Pensions Regulator in connection with the administration of Work Based Pension Schemes .
Commutation	Giving up some or all of a pension in exchange for a lump sum.
Concurrent Membership	Simultaneous membership of two or more pension schemes. Prior to Pensions Simplification, this was often not allowed by HM Revenue & Customs.
Defined Benefit Lump Sum Death Benefit	A lump sum paid on the death of a member of a Defined Benefit Pension Scheme .
Defined Benefit Pension Scheme	A Pension Scheme where the benefits are defined in the scheme rules, and independent of contribution levels. Benefits are commonly expressed as a fraction of salary, for example, 1/60 th , for each year of scheme membership.
Defined Contribution Pension Scheme	Another term for a Money Purchase Pension Scheme .
Enhanced Protection	<p>An option to help protect pension rights built up prior to 6 April 2006 from the Lifetime Allowance Charge.</p> <p>The option is open until 5 April 2009, but only to individuals who cease to build up additional pension rights after 5 April 2006.</p> <p>Protection must be registered with HM Revenue & Customs.</p>
Executive Pension Plan	An Occupational Pension Scheme , often for one Company Director or senior employee, approved under Chapter I Part XIV Income & Corporation Taxes Act 1988. These are now Registered Pension Schemes.
Financial Assistance Scheme	<p>A special scheme set up by the Government. It aims to help members of a Defined Benefit Pension Scheme who have lost pension rights because there were insufficient assets in their pension fund when it was wound up, and their employer could not make up the shortfall.</p> <p>The Pensions Protection Fund aims to help those who find themselves in such a position in the future.</p>
Income Withdrawals	An option under a Personal Pension , and some other money purchase pensions, to take an income direct from a pension fund, rather than buying an annuity straight away (classed as an

	<p>Unsecured Pension).</p> <p>Up to A-Day the amount of income that could be taken fell between 35% and 100% of the annuity that could otherwise be purchased. After A-Day the income must, for those under age 75, fall between zero and 120% of the annuity that could otherwise be purchased.</p> <p>Prior to Pensions Simplification, an annuity had to be purchased before the age of 75 years.</p>
Lifetime Allowance Charge	A tax charge made on funds exceeding your Personal Lifetime Allowance . The charge is 55% if the excess funds are taken as a lump sum, and 25% if the excess funds are used to provide pension income benefits.
Lifetime Annuity	A regular income paid for the lifetime of the recipient.
Limited Period Annuity	Another term for a Short Term Annuity .
Limited Price Indexation	An increase equal to the rise in inflation, as measured by the Retail Price Index (RPI), but subject to a maximum. For example, the increase may be limited to a maximum of 5% per annum. This type of increase often applies to pensions in payment.
Money Purchase Pension Scheme	<p>A Pension Scheme where the benefits given depend on the level of contributions made, and the growth shown in the assets in which the contributions are invested.</p> <p>Also known as a Defined Contribution Pension Scheme.</p>
Net Pay Arrangement	<p>The method used to grant tax relief on the pension contributions made by a member of an Occupational Pension Scheme.</p> <p>The contributions are deducted from gross pay before income tax is calculated. Therefore, members obtain immediate income tax relief on the contributions they make, at the highest rate they pay.</p>
Normal Minimum Pension Age	This is age 50 until 5 April 2010 and age 55 from 6 April 2010 onwards. HM Revenue & Customs do not normally allow retirement at earlier ages.
Occupational Pension Scheme	A Pension Scheme set up under a trust, by one or more employers for the benefit of their employees.
Occupational Pensions Regulatory Authority	Prior to The Pensions Regulator , the body responsible for protecting the interests of Occupational Pension Scheme members.
Pension Commencement Lump Sum	The lump sum taken from a Pension Scheme at the time that pension (income) benefits start to be paid. This will normally be free from tax, and has formerly been known as a tax-free cash sum.
Pension Fund Withdrawals	Another term for Income Withdrawals .
Pension Scheme	A scheme or arrangement designed to provide benefits at one or more of the following - on retirement, on death, on having reached a particular age or on the onset of serious ill-health or incapacity.
Pension Credit Rights	The pension rights gained by a divorcee as a result of a Pension Sharing Order .
Pension Debit	The reduction in an individual's pension rights resulting from a Pension Sharing Order .
Pensions Input	This is the actual, or deemed, contribution to a Pension Scheme in

	<p>respect of a scheme member.</p> <p>For a Money Purchase Pension Scheme, it is the total of the contributions paid by, and for, the member.</p> <p>For a Cash Balance Pension Scheme, it is the amount of the increase in the value of the member's rights from one scheme year to the next.</p> <p>For a Defined Benefit Pension Scheme, it is the capital value of the increase in defined benefits from one scheme year to the next.</p>
Pension Protection Fund (PPF)	<p>A new fund set up by Government to help protect the pension rights of Defined Benefit Pension Scheme members whose fund has insufficient assets when their employer becomes insolvent.</p> <p>It should provide affected scheme members with most of the pension benefits they were entitled to.</p> <p>It does not cover members of a Public Sector Pension Scheme.</p>
Pension Protection Lump Sum Death Benefit	<p>A lump sum paid when an individual in receipt of a pension dies, prior to the age of 75, in respect of future pension instalments. Such a cash sum would be subject to a tax charge, known as a Special Lump Sum Death Benefits Charge, of 35%.</p>
Pension Sharing Order	<p>Upon divorce, an order made by a court that directs the shareable rights under a pension arrangement of one of the spouses be split and shared between that spouse and their ex-spouse. Therefore, the ex-spouse gains some pension rights at the expense of the spouse with shareable rights under a pension arrangement.</p> <p>In Scotland, a Pension Sharing arrangement can be included in a registered qualifying agreement.</p>
The Pensions Regulator	<p>A regulator who aims to protect the interests of members of Work Based Pension Schemes. It was brought into existence on 6 April 2005 and replaced the Occupational Pensions Regulatory Authority. It has significant powers over schemes and the people who run them.</p>
Personal Lifetime Allowance	<p>Your Personal Lifetime Allowance will be either</p> <ol style="list-style-type: none"> (a) The Standard Lifetime Allowance, or (b) Such higher amount granted to you by HM Revenue & Customs, for example, under Primary Protection.
Personal Pension	<p>A pension contract or policy issued under a Personal Pension Scheme. These became available following the withdrawal from sale of the Retirement Annuity Contract.</p>
Personal Pension Scheme	<p>A Pension Scheme started on, or after, 1 July 1988, approved under Chapter IV Part XIV Income & Corporation Taxes Act 1988. It is now called a Registered Pension Scheme.</p>
Primary Protection	<p>An option to help protect pension rights built up prior to 6 April 2006, from the Lifetime Allowance Charge.</p> <p>The option is open until 5 April 2009 to those with existing pension rights whose value, as at 5 April 2006, exceeds £1.5m.</p>

	<p>If the value of pension rights increases at a faster rate than the increase in the Standard Lifetime Allowance, then some liability to the Lifetime Allowance Charge will arise.</p> <p>Protection must be registered with HM Revenue & Customs.</p>
Protected Rights	Funds held under a Money Purchase Pension Scheme which have built up, either directly or indirectly, as a result of being contracted-out of the State Earnings Related Pension Scheme (SERPS) or State Second Pension (S2P).
Public Sector Pension Scheme	An Occupational Pension Scheme for employees of central government, local government and other statutory bodies.
Registered Pension Scheme	<p>A Pension Scheme registered with HM Revenue & Customs, and which thereby agrees to be bound by, and benefit from, the tax rules and advantages available through registration.</p> <p>All Pension Schemes approved prior to A-Day were automatically registered with HM Revenue & Customs, unless they specifically opted-out.</p>
Relievable Pension Contributions	A contribution made to a Registered Pension Scheme for which tax relief will be granted. Therefore, the contribution would count towards the Annual Allowance of the individual concerned.
Retirement Annuity Contract (RAC)	<p>An individual pension arrangement started prior to 1 July 1988, which was approved under s226 ICTA 1970. They are also referred to as:</p> <ul style="list-style-type: none"> • a Self Employed Retirement Annuity (SERA), • a Self Employed Retirement Pension (SERP), • a Section 226 contract, • a Section 620 contract, or • a Retirement Annuity Policy (RAP).
Short Service Refund Lump Sum	A refund of employee contributions made on leaving an Occupational Pension Scheme , having completed less than 3 months service. Refunds of up to £10,800 will be subject to tax at 20%. Any amount refunded in excess of £10,800 will be subject to tax at 40%.
Short Term Annuity	An annuity payable from a Registered Pension Scheme for a limited period of up to 5 years, to individuals under age 75. Such an annuity is classed as an Unsecured Pension .
Special Lump Sum Death Benefits Charge	A charge to tax, of 35%, on a lump sum paid upon the death of an Annuitant prior to the age of 75 years.
Stakeholder Pension Scheme	A Personal Pension Scheme subject to special rules, including a limit on the charges that can be made. Stakeholder pensions became available in April 2001.
Standard Lifetime Allowance (SLA)	<p>The SLA has been set for the first five tax years as follows:</p> <p>2006/07 - £1.50m 2007/08 - £1.60m 2008/09 - £1.65m 2009/10 - £1.75m 2010/11 - £1.80m</p> <p>It is expected to increase each subsequent tax year.</p>
State Pension Age	Currently 60 for women and 65 for men. The age for women is

	being equalised with men, over a ten-year period from 2010, and will be 65 in 2020. Government has proposed to raise this to age 68 by the year 2046.
Tax Relief At Source	A method of granting tax relief on pension contributions made by an individual. A contribution is paid net of basic rate tax, and that tax is subsequently reclaimed by the Pension Scheme . Higher rate taxpayers have to claim the extra relief they are due, via their self-assessment tax return.
Uncrystallised Funds Lump Sum Death Benefit	A lump sum paid on the death, before the age of 75 years, of a member of a Money Purchase Pension Scheme , in respect of funds which have not been used to purchase an annuity or provide Unsecured Pension benefits. For example, this could include a return of the pension fund, upon death, before retirement benefits are taken.
Unsecured Pension	Payments received from a Pension Scheme through Income Withdrawals or under a Short Term Annuity .
Unsecured Pension Fund	The amount of pension fund used to provide Unsecured Pension benefits.
Unsecured Pension Fund Lump Sum Death benefit	A lump sum paid upon the death, before the age of 75 years, of an individual who is in receipt of Income Withdrawals . The lump sum will be in respect of the funds earmarked to provide Income Withdrawals , and is subject to a Special Lump Sum Death Benefits Charge .
Value Protected Annuity	An annuity contract which pays a lump sum upon death before the age of 75 years. The lump sum payable will be the difference between the annuity instalments paid before death and the original annuity purchase price.
Waiver of Premium	An assurance benefit which protects individuals from the inability - through disability - of making pension contributions. It ensures a pension is treated, and valued, as if contributions were paid.
Work Based Pension Schemes	Schemes that are run or sponsored by employers, and to which employers either contribute or pass on employee contributions, or do both. The Pensions Regulator regulates this type of scheme. An Occupational Pension Scheme , a Stakeholder Pension Scheme and a Personal Pension Scheme may all fall into this category.