PUZZLED BY PENSIONS?

PENSIONS JARGON BUSTER GUIDE

USDAW

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PENSIONS JARGON

Are you puzzled by pensions jargon? Use our A-Z guide as a quick reference tool to help you understand the technical terms used by Pension Schemes.

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Actuary

An actuary is a business professional who deals with the measurement and management of risk and uncertainty. Actuaries provide assessments of financial security systems, with a focus on their complexity, their mathematics, and their mechanisms. They are employed in the pensions industry mainly to value the assets of pension schemes (ie investments, cash) versus the liabilities inherent in the scheme (ie the pension promises that have been made, for example pensions in payment, dependents, and deferred pensions).

Additional State Pension (State Second Pension)

The Additional State Pension is also called the State Second Pension and used to be known as the State Earnings Related Pension Scheme (SERPS).

As its name suggests, the Additional State Pension is paid in addition to the Basic State Pension.

In 2002, the State Second Pension reformed SERPS to provide a more generous Additional State Pension for low and moderate earners, and to extend access to include certain carers and people with long-term illness or disability

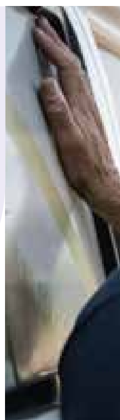
Since April 2016 any person who has not reached their State Pension Age will no longer build up an entitlement to an Additional Pension component but will instead build up qualifying years in the new State Pension.

Find out more about the new State Pension at: www.usdaw.org.uk/Help-Advice/Pensions/Puzzled-by-Pensions

Additional Voluntary Contributions (AVCs)

AVCs are voluntary contributions paid by an individual in addition to the normal contributions required from members of company pension schemes, to provide extra pension benefits at retirement.

Anyone can now have a stakeholder pension or personal pension in addition to a company pension, and so may contribute to another pension rather than a specific AVC scheme. If you are a member of workplace pension scheme you can pay extra contributions to top up your pension fund.



Age Discrimination and Pensions

Since 1 October 2006 it has been unlawful for company pension schemes to discriminate against scheme members or prospective scheme members on the grounds of age.

Discrimination will only be lawful if a specific exemption applies or if it can be 'objectively justified'.

If you think you have been unfairly discriminated against on the grounds of your age you should contact the Usdaw Rep in your workplace or the Area Organiser from your local Usdaw office: www.usdaw.org.uk/Contact-Us/Usdaw-Offices

Annual Allowance

See Tax Relief (page 22).

Annuities

An annuity is a financial product which provides you with an income for the rest of your life (ie a pension) in exchange for your pension savings – often called your 'pension pot'. Since 6 April 2015 you no longer need to purchase an annuity when you retire.

Automatic Enrolment

Auto-enrolment was introduced in October 2012. Between 2012 and 2017 all employers had to automatically enter qualifying workers into a pension scheme. The process started with the biggest employers first and left the smallest employers to enrol their workers by April 2017.

Workers are entitled to compulsory minimum pension contributions from their employer for the first time.

You have a right to be auto-enrolled if all of the below apply to you:

- You are age 22 or older.
- You have not yet reached State Pension Age.
- You earn more than the minimum earnings threshold (currently £10,000 - 2021/22).
- You work in the UK.

The following do not have to be auto-enrolled but have the right to join a pension scheme and receive the minimum employer contribution

- Age 16-22.
- State Pension age to 75.
- Workers on very short-term contracts.
- People earning between £6,240 and £10,000 (2021/22).

Opting Out

You can opt out of auto-enrolment but you will have to apply to do so. If you do opt out then your employer must auto-enrol you again every three years until you reach State Pension Age.

More detailed information about Auto-enrolment can be found at: www.usdaw.org.uk/Help-Advice/Pensions/Auto-enrolment

Basic State Pension

The standard rate of the Basic State Pension for a man or woman with a full National Insurance contribution record is currently £137.60 a week (for the year 2021/22).

Anyone who had not reached State Retirement Age at 5 April 2016 will start to build up entitlement to the new State Pension (See State Pension on page 21).

Entitlement is based on qualifying years. A qualifying year is one when enough National Insurance contributions have been paid or credited.

Men and women who reached their State Pension age on or after 6 April 2010 and before 5 April 2016 needed a total of 30 qualifying years for a full Basic State Pension.

Those with fewer than 30 qualifying years receive a reduced Basic State Pension.

Each qualifying year gives you an entitlement to 1/30th of the full Basic State Pension.

From 2011 onwards, the Basic State Pension has been increased by the higher of the following:

- The rise in the Consumer Price Index (CPI).
- The rise in National Average Earnings (NAE).
- 2.5%.

This is commonly known as the triple lock guarantee.

Benefit Crystallisation Event (BCE)

When you draw benefits or if you should die before taking any benefits, a benefit crystallisation event (BCE) takes place and the value of your benefits are tested against the lifetime allowance. If you have not taken all of your benefits by age 75, a lifetime allowance test will be carried out at this age, on your remaining benefits.

Career Average Revalued Earnings (CARE)

CARE Schemes provide a pension based on your earnings averaged over the duration of your membership of the scheme – unlike a Final Salary scheme where the pension is based on your earnings nearer to retirement.

More detailed information about CARE can be found in our Pensions Guide: www.usdaw.org.uk/pensionsguide

Cash Balance

Cash Balance schemes have some features found in Defined Benefit schemes and similarities to Defined Contribution schemes.

A cash balance scheme is a hybrid between Defined Benefit and Defined Contribution, in that the investment risk is with the employer but the employee bears the risk that the money in their pot will be sufficient to provide enough income at retirement.

For more information on Cash Balance schemes, see our Pensions Guide: www.usdaw.org.uk/pensionsguide

Consultation

There are rules which require employers to consult with employees or their representatives when proposing to make changes to their pension arrangements.

They must consult at least 60 days before the proposed date of change.

Changes to be consulted on include:

— Closure of schemes to existing members.

— Closure of scheme to new members.

— Change of accrual rate, eg 1/60th of earnings for each year.

— Changes to contribution rates.

The definition of consult is the process of exchanging views and the provision of advice.

If your employer announces that your scheme is to be changed in any way you should contact your Area Organiser at your local Usdaw office: www.usdaw.org.uk/Contact-Us/Usdaw-Offices

Contracting Out

Before April 2016 lots of employees came out of the additional State Pension when they joined their employer's Defined Benefit schemes. This was called contracting out.

If you were contracted out you would have paid a reduced National Insurance contribution and your employer would too. You would also have stopped building up additional State Pension for as long as you remained contracted out.

It used to be possible to contract out of a Defined Contribution scheme but this practice was abolished in April 2012. After this anybody who was contracted out in a DC scheme was automatically put back into the State Additional Pension. Since April 2016 all contracting-out has been abolished and everyone must now pay a higher rate of National Insurance in order to help fund the new single tier State Pension (also see State Pension on page 21).

Default Fund

As a member of a Defined Contribution scheme you must choose where your money is invested. Unless you choose another option your money will be invested for you in a fund chosen by either the trustees of a scheme or an insurance company, this is known as a 'default fund'. The fund will aim to grow your money through stock market investments during the growth years but will automatically move your cash into less riskier or volatile assets such as government bonds (or gilts) and cash, as your retirement draws near. 'Default Funds' are also known as Lifestyle Funds.

Deferring your State Pension

When you reach State Pension age you don't have to claim your state pension straight away. Instead you can put off claiming for a while to get a bigger pension when you do claim, whether you carry on working or not.

For more information about deferring your State Pension, go to: www.usdaw.org.uk/Help-Advice/Pensions/Puzzled-by-Pensions

Defined Benefit (DB) Schemes

A pension scheme where the amount of pension payable at retirement is defined as a specific value.

The pension is calculated based on your salary and service which makes it relatively easy to predict how much your pension will be. Defined Benefit (DB) schemes often come with a number of additional benefits for members eg pensions for your spouse/partner and dependent children after you die.

The rate at which your pension builds up is called the accrual rate and it is normally expressed as a fraction. A typical accrual rate is 1/60th for each year of membership.

You also have the option of exchanging some of your pension for a tax-free lump sum when you retire (this is called cash commutation).

Also see Final Salary schemes and Career Average schemes.

See our Pensions Guide for more information about DB schemes: www.usdaw.org.uk/pensionsguide

Defined Contribution (DC) Schemes

Unlike Defined Benefit, DC schemes offer no guarantee about how much your pension will be when you retire.

The only thing which is defined is the level of contribution that is paid towards your pension, hence the term 'Defined Contribution'.

Types of DC schemes include Occupational Money Purchase schemes, Stakeholder schemes, Personal Pension schemes and Group Personal pensions.

See our Pensions Guide for more information about DC pension schemes: www.usdaw.org.uk/pensionsguide

Disclosure – Your Right to Information

Members and trade unions have important statutory rights to information about workplace pension schemes under regulations made under the Pensions Act 1995: The Occupational Pension Schemes (Disclosure of Information) Regulations.

Members are encouraged to find out about their own pension and keep in a safe place all documents, letters, individual statements booklets etc, given to them over the years as these may be helpful in years to come.

See our Pensions Guide for more information about your right to information: www.usdaw.org.uk/pensionsguide

Dispute Resolution Procedures

The Pensions Act 1995 required Trustees to put in place an Internal Disputes Resolution Procedure (IDRP). The procedure must cover disputes between the trustees and members (active, deferred or pensioner), prospective members or beneficiaries. It does not have to cover disputes with the employer or disputes which are being investigated by the Pensions Ombudsman, a court or another outside body.

See our Pensions Guide for more information about making a complaint against your pension scheme: www.usdaw.org.uk/pensionsguide

Divorce

If you are getting a divorce and you and your ex-spouse/partner are dividing up your assets then your pension rights can be taken into account.

The amount of the split is up to either the divorcing couple to agree or the courts to decide.

Many workplace pension schemes will now charge you for any additional administration work that goes into splitting pension rights on divorce - particularly in Defined Benefit schemes where the calculation is not straightforward. This charge may be hundreds of pounds depending on the amount of extra work involved.

There is more detailed information about divorce and pensions on The Pensions Advisory Service and the Money Advice Service websites.

Drawdown

See Flexi-access Drawdown (page 11).

Earnings Bands

Usually in relation to Auto-enrolment. The minimum total contribution to the scheme is usually based on your 'qualifying earnings'. These are your earnings from employment, before income tax and National Insurance contributions are deducted, that fall between a lower and upper earnings limit that are set by the Government.

Expression of Wish

Also called a Nomination Form or Letter of Expressed Wishes, this is the form you must complete in order to nominate the person(s) you want to receive your lump sum death-in-service benefits.

The pension scheme trustees do not have to follow the instructions you give them but in the majority of cases they will do. If your circumstances change (e.g. if you get divorced or remarried or have children) you must complete a new form so the trustees know what your wishes are.

Final Salary Schemes

Final Salary Schemes provide a pension based on the length of time you have been a member of the scheme and your salary at the date you retire from or leave the scheme (hence the term 'Final Salary').

The rate at which your pension builds up is called the accrual rate and is usually expressed as a fraction (eg 1/80th).

Also see Defined Benefit schemes (page 9).

See our Pensions Guide for more information about Final Salary schemes: www.usdaw.org.uk/pensionsguide

Financial Assistance Scheme (FAS)

The Financial Assistance Scheme is now administered by the Pension Protection Fund (PPF).

FAS was the original 'lifeboat scheme' set up to help provide compensation to members of Defined Benefit schemes where one of the following events had occurred:

— They were a member of an under-funded Defined Benefit scheme that started to wind up between 1 January 1997 and 5 April 2005.

— Their scheme began to wind up and did not have enough money to pay members' benefits.

— The employer cannot pay the shortfall because it is insolvent, no longer exists or no longer has to meet its commitment to pay its debt to the pension scheme,

— The scheme started to wind up after 5 April 2005 but is ineligible for help from the PPF due to the employer becoming insolvent before this date.

Flexi-access Drawdown

Flexi-access drawdown was introduced in April 2015 as part of the 'Pension Freedoms' legislation. When you ask your pension provider to move you to flexi-access drawdown your money is treated as being moved into a new pot. You can withdraw as much or as little of your money from this pot as you wish, when you wish, subject to any restrictions your pension provider or scheme imposes. The first 25% you withdraw is paid tax-free. Thereafter you will have to pay income tax at your marginal tax rate on payments you take.

For more information about Pension Freedoms go to: www.usdaw.org.uk/PensionFreedoms

Flexible Retirement

Provided your employer agrees, you may now start to receive payment of your workplace pension and carry on working for the company (either on the same hours or reduced hours). This is an attractive option for anybody who wants to 'phase in' their retirement.

Group Personal Pensions

A Group Personal Pension is a type of personal pension, which your employer may offer to you and your colleagues. Even though GPPs are arranged by your employer, the contract is between you and the pension provider. GPPs may have lower charges than individual personal pensions, because the provider may offer the employer a discount for the volume of policies.

Hybrid Schemes

Hybrid Schemes offer benefits which are a mixture of Defined Benefit and Defined Contribution.

See our Pensions Guide for more information about Hybrid schemes: www.usdaw.org.uk/pensionsguide

Ill health or Incapacity Retirement

Most Defined Benefit schemes have ill health early retirement provision.

Often the pension scheme rules will only allow a pension to be paid if you are not able to do any paid work elsewhere.

However, some Defined Benefit schemes will pay a limited or partial ill-health pension to those who cannot carry out their current job but could, perhaps, work elsewhere in future.

Medical evidence of incapacity/ill health will be required and usually the trustees will want proof that your condition is permanent.

Defined Contribution schemes also allow your pension pot to be paid to you before age 55; however, there is no guarantee as to the amount of pension this would provide you in retirement.

See our Pensions Guide for more information about ill health retirement: www.usdaw.org.uk/pensionsguide

Income Drawdown

See Flexi-access Drawdown (page 11).

Independent Financial Advisor

Many members find the information provided on pensions complex and confusing, but need to make decisions on choice of investment funds, choice of contribution levels; and options at retirement. They often want help in making decisions.

Usdaw cannot provide members with independent financial advice and recommended financial products as we are not authorised to do so. What we can give is guidance and information, and point out the issues that people need to think about. In this way members can make an informed choice.

So all members and reps need to make it clear that they cannot give independent financial advice but they can offer guidance.

An Independent Financial Advisor (IFA) is authorised to give advice. Usdaw have an affinity partnership with a company of financial advisers who trade under the name of the Lighthouse Group.

See our Pensions Guide for more information about getting financial advice: www.usdaw.org.uk/pensionsguide.

Inflation

Increase in the general level of prices of goods and services.

Integration

Many Defined Benefit pension schemes are designed to take account of your State Pension too. This is called integration.

The most common form of integration allows the scheme to disregard an amount of your pay in the definition of pensionable pay. This has the effect of reducing contributions and benefits.

Integration is unpopular with many members because it gives them less pension than they might expect to get.

Integration can substantially reduce pension costs for the employer and, in contributory schemes, the employee.

It is an important and controversial aspect of some Defined Benefit schemes because it disproportionately affects lower paid scheme members.

Investment choices

Contributions to a Defined Contribution scheme are invested. What you get at retirement depends on the rates of return on the investments made.

Most schemes provide a choice of investment funds to invest in. Typically the choice might be:

- Global equity fund.
- UK equity fund.
- Gilts fund.
- Cash fund.
- Property.

See our Pensions Guide for more information about making investment choices: www.usdaw.org.uk/pensionsguide

Leaving early

On leaving employment before retirement age, there are a number of options depending on what kind of pension scheme it is and how long you have been a member.

Defined Benefit schemes

Members with two or more years' service will usually have the following options:

- A deferred pension – the pension rights built up so far remain invested in the scheme until retirement age.
- A transfer payment into another registered pension scheme.

Members with between three months and two years' service will usually have the following options:

- A refund of the individual's own contributions (minus tax).
- A transfer payment into another registered pension scheme (including the value of contributions made by the employer).

Defined Contribution schemes

Since October 2015 anyone with greater than 30 days membership of a DC scheme cannot obtain a refund of their contributions.

Members who have greater than 30 days membership have the following option:

- A transfer payment into another registered pension scheme (including the value of contributions made by the employer).

Sometimes a refund will not be available, for instance if you participated in a salary sacrifice arrangement. You will not lose your benefits in this instance; you will just not have the option of a refund.

Also, refunds cannot normally be paid if you have transferred benefits into your current scheme from another previous pension arrangement.

See our Pensions Guide for more information about leaving a scheme early: www.usdaw.org.uk/pensionsguide

Lifestyle Fund

See Default Fund (page 8).

Lifetime Allowance

See Tax Relief (page 22)

Lower Earnings Limit

The Lower Earnings Limit is the minimum amount which you have to earn before you are credited as having paid National Insurance contributions.

It is also the amount deducted from pensionable pay in some integrated pension schemes.

The level is set by the Government every April; it is also the Lower level of qualifying earnings for Auto-enrolment.

See the back pages of our Pension Guide for the current lower earning limit: www.usdaw.org.uk/pensionsguide

Marginal Tax Rate

The marginal tax rate is the amount of tax paid on each additional pound of income. The marginal tax rate for an individual will increase as their wage/income rises. This method of taxation aims to fairly tax individuals based upon their earnings/income, with low income earners being taxed at a lower rate than higher income earners.

Under a marginal tax rate, tax payers are divided into tax brackets or ranges i.e. basic rate, higher rate and super rate (e.g. 20%,40% and 55%), which determine the rate applied to the taxable income. As income increases, the money received will be taxed at a higher rate than the first pound earned.

Married women and the State Pension

Until 1977, married women could elect to pay the 'small stamp' (a lower rate of National Insurance contribution).

This meant that they did not earn any State Pension of their own and relied instead on their husband's National Insurance record.

Although this choice stopped in 1977, any married women who had elected to pay the Married Woman's Stamp (Reduced Rate Election) were allowed to continue.

If you reach State Pension age on or after 6 April 2016, your State Pension will be based on your National Insurance record only, under the rules that apply to the new State Pension. However, married women or widows who have opted to pay reduced-rate National Insurance contributions may get a new State Pension based on different rules if these will give her more than the amount of new State Pension that she would otherwise get based on her own National Insurance record.

For more information about the new State Pension go to: www.usdaw.org.uk/Help-Advice/Pensions/Puzzled-by-Pensions

You can get a State Pension statement (forecast) online at: www.gov.uk/check-state-pension

Member Nominated Trustees (MNTs)

With trust based schemes there is a legal requirement that, as a minimum, one-third of trustees be nominated by the scheme members.

The facility for employers to opt-out of the requirements has been removed.

Please alert Usdaw's Pensions Section about any proposed trustee selection or election process in your employer's pension scheme.

We invite Member-Nominated Trustees to work closely with the Usdaw Pensions Section and to alert us to any possible changes and developments in their scheme. This is so that the appropriate negotiating officer can ensure that the union is consulted and involved.

Money Purchase schemes

See Defined Contribution schemes (Page 9).

National Insurance credits

If you aren't paying National Insurance contributions then there are some circumstances where you can claim NI credits which count towards your State Pension. The main ones are:

— You are claiming Jobseeker's Allowance.

— You are claiming Incapacity Benefit or Employment and Support Allowance.

— You are claiming Child Benefit for a child under 12 years old.

— You are claiming Carer's Allowance.

For more information search for 'national insurance credits' at www.direct.gov.uk or call the NI Contributions Office (NICO) on 0845 302 1479.

Occupational Pension Scheme (Workplace pension)

An occupational pension scheme is a retirement savings plan provided by an employer for its employees. Staff who are members of a company pension plan benefit from a favourable income tax treatment, and if there is a salary sacrifice arrangement (sometimes referred to as SMART), a National Insurance (NI) break on contributions.

The Defined Benefit (DB) plan (Final Salary, Career Average) used to be the most popular scheme on offer, but now Stakeholder, Group Personal Pension (GPP) plans and Money purchase (all Defined Contribution schemes) are now more popular. There are also hybrid pension arrangements which have both DB and DC scheme elements.

A workplace pension scheme is a key benefit for employees in the UK as employers make contributions towards the pension for the scheme members. All companies must now auto-enrol their staff into some sort of pension arrangement.

If you are a member of a DB scheme the employer will pay for administration so no costs are incurred by members.

If you are a member of a DC scheme fund management fees are usually charged to individual members' pension accounts (pension pots).

However, in the case of stakeholder pensions fees are capped, and the employer is usually able to secure lower charges than is the case for personal pension arrangements so a workplace plan should save you on costs.

Parental Leave

Parental leave is maternity leave, paternity leave and adoption leave.

You and your employer will usually still make pension contributions while you are on paid parental leave.

There are two types of pension schemes, those known as Defined Benefit (eg Final Salary) or Defined Contribution (eg Group Personal Pension).

Your rights to have pension contributions paid depend on which type of pension scheme you are in.

For more information please see the Usdaw Guide to Maternity and Parental Rights: www.usdaw.org.uk/matpatrightsguide

Part-time workers and pensions

Until the last decade most part-time workers were excluded from pension schemes. A landmark legal ruling in 1994 outlawed this practice and forced employers to allow anyone who was unlawfully excluded an opportunity to pay contributions and backdate their membership of the pension scheme.

See our Pensions Guide for more information about pension rights for part-time workers.

Pension Commencement Lump Sum (PCLS)

When you can start drawing benefits from your pension scheme, you may be able to take part of your pension benefits as a tax-free cash lump sum (called the pension commencement lump sum (PCLS).

Pensionable Salary

Pensionable salary is the same as pensionable earnings and they are the earnings recognised by the pension scheme rules for the purpose of calculating your regular contribution and your pension benefits.

Some schemes count all of your earnings whereas others might only count your basic or contractual pay. Schemes may include or exclude items like overtime, shift premium, bonuses.

Many schemes take account of state retirement benefits when identifying pensionable earnings, a process known as Integration (see page 13).

Pension Protection Fund

The Pension Protection Fund was set up by the Government to provide compensation to members of Defined Benefit (DB) pension schemes, where the employer has become insolvent and the pension scheme has a deficit. The Pension Protection Fund provides valuable safeguards for members of DB schemes. The PPF is funded by a levy on pension schemes.

See our Pensions Guide for more information about the Pension Protection Fund.

Please also see the information on the Pension Protection Fund website: www.ppf.co.uk

Pensions Advisory Service

The Pensions Advisory Service (TPAS) is an independent non-profit organisation that provides free information, advice and guidance on the whole spectrum of pensions, including state, company, personal and stakeholder schemes. *From 2019 TPAS became part of Government's Money and Pension Service (MaPs)*

Please also see the information on the Pensions Advisory Service website: www.pensionsadvisoryservice.org.uk

Pension Increase Exchange (PIE)

Your employer may use a pension increase exchange (PIE) exercise to try to reduce the running costs of their Defined Benefit or CARE pension scheme. The company will generally offer you a large one-off increase to your pension on the basis that no further increases will be given.

You may also be offered a similar incentive as an active member of a scheme; if you agree to transfer your benefits to a new scheme (see Transfer Incentive Exercise).

See our Pensions Guide for more information about PIE.

Pensions Ombudsman

The Pensions Ombudsman investigates and decides complaints and disputes concerning workplace pension schemes.

It has been given the role and powers by Parliament, and is appointed by the Secretary of State for the Department of Work and Pensions. It is completely independent and acts as an impartial adjudicator.

The Pensions Ombudsman's decision is final and binding on all the parties to the complaint or dispute. It can be enforced in the Courts. It's decision can only be changed by appealing to the appropriate Court on a point of law.

Please also see the information on the Pension Ombudsman's website: www.pensions-ombudsman.org.uk

Pensions Regulator

The Pensions Regulator is the Government's watchdog for company pension schemes.

They rely upon receiving information about possible risks to schemes from the trustees, managers, advisers or members.

In order to tackle these risks they may:

- help the trustees and employer to come to an agreement about levels of contributions to the scheme, and put in place a long-term funding plan;
- order an employer to pay any shortfall in a scheme;
- order scheme administrators to improve the service they provide to members;
- make sure that on those rare occasions when money is stolen from a scheme it is returned.

Visit the Pension Regulator's website: www.thepensionsregulator.gov.uk

Pension Wise

With the introduction of the new pension freedoms in April 2015 the Government also established a service, called Pension Wise, to provide free and impartial guidance about the greater flexibility and choice available to pension savers. The advice service is specifically for Defined Contribution pension savings which savers will have greater freedom to access from the age of 55. Individual guidance is provided via phone sessions run by The Pensions Advisory Service, as well as face-to-face sessions provided by Citizens Advice.

The advice covers;

- What you can do with your pension pot.
- The different pension types and how they work.
- What's tax-free and what's not.

From 2019 Pension Wise became part of Governments Money and Pension Service (MaPS).

Please also see the information on the Pension Wise website: www.pensionwise.gov.uk

Personal Pensions

Personal pensions are Defined Contribution arrangements you make yourself, usually through a bank, building society or insurance company who invest the money on your behalf. However the major drawbacks to a personal pension are:

- No employer contribution – the only contributions going into the plan will be your own
- Higher charges – charges to a personal pension plan are usually much higher than occupational pension schemes
- No additional benefits – some employers offer their employees life cover if they join their workplace group personal or group stakeholder pension plan.

Qualifying Earnings

Qualifying earnings refers to a band of earnings used to calculate your contributions for auto-enrolment.

See our Guide to Auto-enrolment for more information on qualifying earnings.

Salary Exchange (Salary Sacrifice)

More and more employers are introducing salary exchange arrangements which offer employees a new way to make their regular contribution to the company's pension scheme.

These new arrangements (sometimes given a different name such as Salary Sacrifice or SMART Pensions, for example) do not replace the pension scheme you are in. They are just a new way of paying your regular contribution, which is designed to save you and your employer money by paying less National Insurance.

For more information download Usdaw's advice sheet: www.usdaw.org.uk/salexchange

Scheme Deficit

A 'scheme deficit' (or shortfall) occurs when a Defined Benefit pension scheme does not have enough assets to pay for all its future possible liabilities (i.e. the promises that the Scheme makes to its members). Either the employer will have to make additional payments to make up the deficit, or the trustees will have to find some other way of reducing the deficit such as cutting benefits, increasing member contributions, or even closing the scheme to future accrual.

Scheme Surplus

Defined Benefit pension schemes need to have enough funds to meet their obligations to existing members. The rules for this have changed over time. When schemes have assets well in excess of its liabilities, they are said to have a 'surplus'.

Stakeholder Pensions

Stakeholder pensions are a kind of personal pension which you can arrange for yourself or through your employer. Like a normal personal pension, your contributions are paid to the bank, building society or insurance company which is providing the stakeholder pension and they invest the money on your behalf.

See our Pensions Guide for more information about Stakeholder Pensions: www.usdaw.org.uk/pensionsguide

State Pension

The State Pension age has been undergoing some radical changes since 2010. The changes have seen the State Pension age rise to 65 for women between 2010 and 2018. From 2018 to 2020 the State Pension age rose for everyone to 66 and will increase further to 67 from 2028. It is anticipated that it will rise to 68 from 2037 to 2039.

The earliest age that the State Pension can be claimed is based on your date of birth and your gender. You can find out what your State Pension age will be at: www.gov.uk/state-pension-age

The Government has proposed that further reforms are needed. It has announced that it will commit to ensuring that the State Pension age is automatically increased in future to take account of how long people are living. This will be reviewed on a five yearly basis.

From April 2016 you need 35 Qualifying Years to get the full amount of the single tier State Pension. Furthermore if you reach State Pension age after April 2016, for the first time, you will now need to have a minimum of 10 years National Insurance contributions or credits to qualify for a State Pension.

State Pension Statement

You can get a statement of what your State Pension entitlement will be.

The statement tells you the estimated value of your entitlement expressed in present-day money.

A statement can also show women who have paid the "small stamp" how much extra State Pension they can get if they switch to paying full NI contributions.

The statement will also show how someone whose National Insurance record is less than the qualifying level for the full rate, the benefit of paying voluntary contributions.

Someone who is planning on giving up work before reaching State Pension age will be able to see how their State Pension will be affected.

You can get a State Pension statement (forecast) online at: www.gov.uk/check-state-pension

For more information on the new State Pension go to: www.usdaw.org.uk/Help-Advice/Pensions/Puzzled-by-Pensions

Tax for retired people

Tax does not stop when you retire, no matter how old you are. But you will not have to pay National Insurance contributions if you work past your State Pension age. From 2016 everyone, regardless of age, is also entitled to the basic personal allowance. This is the amount of income you can receive each year, which is not subject to income tax.

HM Revenue and Customs provide guidance on their website. Find out more at: www.gov.uk/tax-national-insurance-after-state-pension-age

Tax relief

Contributions to registered pension schemes receive tax relief from the government up to certain limits.

Before April 2006, you were limited to receiving tax relief on pension contributions of no more than £15,000 a year.

This limit was abolished and replaced with a new Lifetime Allowance and Annual Allowance. The new allowances only affect very high earners.

The Lifetime Allowance is the amount of pension benefits you can build up with tax relief over your working life.

The Annual Allowance is the amount of pension benefits that you can build up with tax relief in a single tax year.

In a single tax year you can have tax relief on contributions to your pension of whichever is the lower of 100% of your annual earnings or the annual allowance. (Individual pension schemes may be more restrictive).

See our Pensions Guide for more information about annual allowance: www.usdaw.org.uk/pensionsguide

More information is available on HMRC's website: www.gov.uk/tax-on-your-private-pension/lifetime-allowance

Transfer Incentive Exercise

If you have left your Defined Benefit workplace pension scheme, your employer may offer to increase the transfer value to encourage you to transfer your built-up pension benefits to a new pension scheme.

See our Pensions Guide for more information about transfer incentives: www.usdaw.org.uk/pensionsguide

Triple Lock Guarantee

Your State Pension should increase each year by the highest of:

— Inflation (Consumer Prices Index); or

— National average Earnings; or

— 2.5%.

Trivial commutation

You may be able to take the whole of your pension as cash, whether your pension is a Defined Benefit or a Defined Contribution scheme. Taking cash in this way is called taking a 'trivial commutation' or trivial lump sum.

The Pensions Advisory Service provides guidance on their website: www.pensionsadvisoryservice.org.uk/about-pensions/retirement-choices/the-right-choice-for-me/taking-a-small-pension-as-a-cash-lump-sum

Trustees

Trustees are responsible for running company pension schemes. They hold the scheme's assets for the members and must act independently of the employer, for the benefit of scheme members. Trustee powers are contained in documents called the Trust Deed and the Scheme's Rules which they have a duty to follow.

Also see Member Nominated Trustees (page 16).

Trust-based DC schemes vs Contract-based DC schemes

The main difference between the two is in the way they are managed, and how much control the company offering the scheme has over its structure.

Trust-based DC schemes tend to be favoured by larger companies that might have had an existing trustee board in place for a legacy Defined Benefit (DB) scheme. They are operated in-house by a company for its own staff and have a trustee board that plays a similar role to the trustee board of a DB scheme.

Contract-based DC schemes may be favoured by smaller companies without the knowhow or the time to manage an occupational pension scheme themselves as they are 'outsourced' by an employer to a third party provider, who will manage all aspects of the scheme. They do not have to have a trustee board (although increasingly employers are setting up governance boards to monitor contract-based schemes).

TUPE and pensions

If your job is transferred under the Transfer of Undertakings (Protection of Employment) regulations (the TUPE regulations) and you were a member or you were eligible to become a member of your previous employer's occupational scheme, then your new employer must offer you an alternative pension.

If your job and pension involve a TUPE transfer then you should contact your Union Official.

Uncrystallised Funds Pension Lump Sum (UFPLS)

If you're a member of a Defined Contribution scheme, you may be able to access your pension fund, in full, or a series of lump sums as you go along, without the need to purchase either an annuity or putting your money into flexi-access drawdown (income drawdown). This is known as an Uncrystallised Funds Pension Lump Sum (UFPLS). UFPLS may be available if you are aged at least 55, or earlier, if you're in poor health.

Upper Earnings Limit (UEL)

All employees pay a lower rate of National Insurance above this point.

See the back pages of our Pension Guide for the current upper earning limit: www.usdaw.org.uk/pensionsguide

Waiting Period

A period of service specified in the scheme rules which an employee must serve before being entitled to join an occupational pension scheme or to receive a particular benefit. Also referred to as postponement which allows the additional flexibility for an employer to postpone automatic enrolment for a period for up to three months to enable employers to align payroll runs, deal with earnings spikes and help cope with high staff turnover.

Notes

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