

# Glossary

<b>Active Fund Management</b>	Funds are managed actively by buying and selling assets to try and outperform the market. Active managers use research, forecasts and their judgement and experience in making investment decisions.
<b>Active members</b>	Current employees who are contributing (or having contributions made on their behalf) to an organisation's <b>occupational pension</b> scheme.
<b>Additional Pension (AP)</b>	The earnings-related State Pension paid in addition to the <b>basic State Pension</b> . From 1978–2002 it accrued under the <b>State Earnings-Related Pension Scheme (SERPS)</b> and from 2002 it accrues under the <b>State Second Pension (S2P)</b> scheme.
<b>Additional Voluntary Contributions (AVC)</b>	<b>Personal pension</b> contributions made by someone, who is also a member of an <b>occupational scheme</b> , as a top-up to their occupational entitlement. Additional Voluntary Contributions can be made into the occupational scheme or to a standalone product called a Free-Standing Additional Voluntary Contribution plan.
<b>Annual management charge (AMC)</b>	The charge generally applied to <b>personal pension</b> plans where the fee is levied as an annual charge on the value of the fund. This charge covers the sales, administration and fund management costs of the fund.
<b>Annuity</b>	Purchased with an individual pension fund, which has been built up in a <b>defined contribution pension scheme</b> , to provide an income that is usually payable for life. A single-life annuity pays benefits to an individual. A joint-life/survivor's annuity pays benefits to the spouse/dependent partner after death. A level annuity pays constant payments, whereas an index-linked annuity pays benefits relating to an index (for example, the <b>Retail Price Index</b> ).
<b>Asset class</b>	A specific category of assets or investments, such as equities, bonds, cash or property. Assets within the same class generally exhibit similar characteristics, such as similar risks and returns.

<b>Asset allocation</b>	The mix of <b>asset classes</b> which an investor holds.
<b>Automatic enrolment</b>	A system whereby an individual is made a member of a pension scheme unless they actively opt out of the scheme.
<b>Average earnings terms</b>	Figures have been adjusted to remove the effect of increases in average earnings over time. Thus, if something shown in average earnings terms increases, it is rising faster than average earnings, whereas if it is constant, it rises at exactly the same pace as average earnings.
<b>Basic State Pension</b>	An amount of money paid by the State to those who are entitled to it and claim it. It is available from State Pension age. In general, the amount you get depends on the number of years you, your spouse or your civil partner, have contributed to the state scheme either through paying <b>National Insurance</b> contributions, or been treated as having paid <b>National Insurance</b> contributions or been awarded credits.
<b>Behavioural economics</b>	A class of economic theories using insights from psychology to understand how individuals make economic decisions.
<b>Bond</b>	A debt investment with which the investor loans money to an entity (company or government) that borrows the funds for a defined period of time at a specified interest rate.
<b>Contracting out</b>	The system by which individuals can choose to opt out of the <b>State Second Pension</b> and use a proportion of their <b>National Insurance</b> contributions to build up a <b>funded</b> pension. There are four types of schemes from which an individual may contract out. The rules and rebate levels are different for each. These are: Contracted-out Salary-Related Scheme, Contracted-out Mixed Benefit Scheme, Contracted-out Money Purchase Scheme and approved personal pension.
<b>Decumulation</b>	The drawing down of pension assets to fund retirement. In the UK, it is permitted to access pension assets partially as a tax-free lump sum and partially as an income stream (ie <b>annuity</b> or income draw down).
<b>Default fund</b>	In <b>defined contribution pension schemes</b> , some members do not make a choice of investment fund. These members will have their contributions paid into a default fund, designated for that purpose.

<b>Defined benefit (DB) pension scheme</b>	A pension scheme where the pension is related to the member's salary or some other value fixed in advance.
<b>Defined contribution (DC) pension scheme</b>	A pension scheme where the individual receives a pension based on the contributions made and the investment return that they have produced. They are sometimes referred to as 'money purchase schemes'.
<b>Discount rate</b>	An interest rate used to reduce an amount of money at a date in the future to an equivalent value at the present date.
<b>Diversification</b>	A risk management technique that mixes a wide variety of investments within a <b>portfolio</b> . It is designed to minimise the impact of performance by any one sector, industry or <b>asset class</b> on overall <b>portfolio</b> performance.
<b>Economically inactive</b>	People who are neither employed nor unemployed, for example those who are caring for children and not doing paid work.
<b>Equity</b>	Share or any other security representing an ownership interest.
<b>Final salary scheme</b>	A <b>defined benefit pension scheme</b> that gives individuals a pension based on the number of years of pensionable service, the accrual rate and final earnings as defined by the scheme.
<b>Funded pension scheme</b>	A pension scheme where pension contributions are paid into a fund which is invested, and the pension is paid out of the accumulated funds.
<b>Gross Domestic Product (GDP)</b>	A measure of economic activity in a country, calculated by adding the total value of a country's annual output of goods and services.
<b>Guarantee Credit</b>	A <b>means-tested benefit</b> which is part of <b>Pension Credit</b> and brings pensioners' income up to a guaranteed minimum level. In 2006/07 the <b>standard minimum guarantee</b> for a single person is £114.05 a week. For a couple the level is £174.05 a week. The guaranteed minimum is higher for some groups, such as disabled people and carers, who qualify for additional amounts.

<b>Her Majesty's Revenue and Customs</b>	The new department responsible for the business of the former Inland Revenue and Her Majesty's Customs and Excise. It is the department responsible for <b>National Insurance</b> .
<b>Incapacity Benefit</b>	Benefit paid to people incapable of work who have either paid, or been credited with, sufficient <b>National Insurance</b> contributions, or who became incapable of work in their youth.
<b>Independent Financial Adviser (IFA)</b>	Someone who is authorised to provide advice and sell a wide range of financial products. They are distinguished from tied financial advisers, who can only give advice on investment products offered by a specific company.
<b>Large firm</b>	For statistical purposes, the Department of Trade and Industry usually defines a large firm as one with 250 or more employees.
<b>Life expectancy</b>	Life expectancy at a given age, $x$ , is the average number of years that a male or female aged $x$ will live thereafter, and is calculated using age- and gender-specific mortality rates at ages $x$ , $x+1$ , $x+2$ , etc.
<b>Lifestyling</b>	A method used in investment fund management where an investment fund has an asset mix determined by the level of risk and return that is appropriate for an individual investor at different stages in the lifecycle. The fund invests in higher return but higher risk assets when the individual is young and gradually moves to less risky assets (ie bonds) during the 10 to 15 years before the individual plans to retire.
<b>Longitudinal study</b>	A research study which follows a group of individuals over a period of time.
<b>Means-tested benefits</b>	State benefits where the amount paid depends on the level of income and capital, and other personal circumstances.
<b>Median</b>	The median of a distribution divides it into two halves; therefore, half the group are above the median value and half below.
<b>National Insurance (NI)</b>	The national system of benefits paid in specific situations, such as retirement, based on compulsory or voluntary contributions.

<b>Occupational pension</b>	A pension that is provided by the employer where the pension scheme takes the form of a trust arrangement and is legally separate from the employer.
<b>Passive fund management</b>	Funds are managed by making as few <b>portfolio</b> decisions as possible, in order to minimise transaction costs. One popular method is to invest in the underlying assets of an externally specified financial index to follow the performance of the index.
<b>Payback</b>	The increase in real net income per £1 of contributions made to achieve that increase.
<b>Pension accrual</b>	The build-up of pension rights. In a <b>defined benefit</b> scheme this may be based on the number of years of contributions.
<b>Pension Credit</b>	The main <b>means-tested benefit</b> for pensioners, which combines <b>Guarantee Credit</b> and <b>Savings Credit</b> .
<b>Pension Protection Fund (PPF)</b>	Established in April 2005 to pay compensation to members of eligible defined benefit pension schemes, when there is a qualifying insolvency event in relation to the employer and where there are insufficient assets in the pension scheme to cover Pension Protection Fund levels of compensation.
<b>The Pensions Commission</b>	The Pensions Commission, chaired by Lord Adair Turner, was set up in 2002 to review the UK private pension system and long-term savings. The Pensions Commission has now concluded its review and been disbanded.
<b>The Pensions Regulator</b>	The regulator of work-based pension schemes in the UK.
<b>Persistence (in relation to saving)</b>	Where someone continues to make contributions to a pension scheme over time.
<b>Personal accounts board</b>	A body created to oversee the personal accounts scheme. The board of governors will be obliged to operate in accordance with statutory duties similar to those imposed upon trustees by trust law and specific pension-related statutory provisions.

<b>Personal accounts delivery authority</b>	A time-limited Non-departmental Public Body established to design and develop the infrastructure of the personal accounts scheme through to implementation.
<b>Personal accounts earnings band (PAEB)</b>	When launched, the limits for the personal accounts earnings band will be aligned with the <b>Primary Earnings Threshold</b> and <b>Upper Earnings Limit for National Insurance</b> contributions (£5,035 and £33,540 a year respectively in 2006/07) Thereafter, the personal accounts earnings band will be updated in line with earnings.
<b>Personal pension</b>	A pension which is provided through a contract between an individual and a pension provider. The pension produced will be based on the level of contributions, investment growth and annuity rates. A personal pension can either be employer-provided (a group personal pension) or purchased individually.
<b>Portfolio</b>	The collection of assets held by an investor.
<b>Price-indexation</b>	Increasing each year in line with inflation.
<b>Primary Earnings Threshold</b>	The point at which employers and employees become liable for <b>National Insurance</b> contributions. In 2006/07, the threshold is £97 a week or £5,035 a year.
<b>Rate of return</b>	The gain or loss of an investment over a specified period, expressed as a percentage increase over the initial investment cost. Gains on investments are considered to be any income received from the asset, plus realised capital gains.
<b>Real terms</b>	Figures that have been adjusted to remove the effect of increases in prices over time (inflation), usually measured by the <b>Retail Price Index</b> . Thus, if something shown in real terms increases, then it is rising faster than prices, whereas if it is constant, it rises at exactly the same rate as prices.

<b>Reference Scheme Test (RST)</b>	A test of overall pension scheme quality currently used for <b>defined benefit schemes</b> that are contracted-out of the <b>State Second Pension</b> . A scheme satisfies the test if the pensions provided to at least 90 per cent of the members are broadly equivalent to, or better than, the pension which would be provided under the Reference Scheme which: is payable from age 65; is paid for life; accrues for each year of pensionable service (40 years maximum) at the rate of one-eightieth of average qualifying earnings in the last three years of service; is based on qualifying earnings defined as 90 per cent of earnings between the Lower Earnings Limit and the Upper Earnings Limit; and provides a 50 per cent survivor benefit for a spouse or civil partner.
<b>Replacement rate</b>	Measures income in retirement as a percentage of income before retirement.
<b>Retail Price Index (RPI)</b>	An average measure of the change in the prices of goods and services bought for consumption by the vast majority of households in the UK.
<b>Risk profile</b>	The distribution of risk preferences across the target group. The risk profile shows the average, median and the extreme risk preferences that exist within the target group. This is useful in both designing the default fund and deciding the appropriate fund choices in accordance with the risk appetite of the target group.
<b>Savings Credit</b>	Part of <b>Pension Credit</b> . It is a <b>means-tested benefit</b> for people aged 65 or over, which accrues at the rate of 60p for each pound of income above a threshold (currently the equivalent of the full <b>basic State Pension</b> ) up to a maximum amount (£17.88 for a single person, £23.58 for a couple in 2006/07).
<b>Small and medium sized enterprise (SME)</b>	For statistical purposes, the Department of Trade and Industry usually defines a small and medium sized enterprise as a firm with 249 or fewer employees.
<b>Small firm</b>	For statistical purposes, the Department of Trade and Industry usually defines a small firm as one with 49 or fewer employees.
<b>Socio-economic group</b>	A classification aimed at bringing together people with similar social and economic status. The classification is based on occupation, employment status and size of employer.

Stakeholder pension	A <b>personal pension</b> product which complies with regulations which limit charges and allow individuals flexibility about contributions.
Stakeholder price cap	A 1.5 per cent <b>annual management charge (AMC)</b> for the first ten years of the policy, and thereafter a 1 per cent <b>AMC</b> .
Standard minimum guarantee	The minimum level of income guaranteed to pensioners through the <b>Guarantee Credit</b> element of <b>Pension Credit</b> . (The guaranteed level for some groups of pensioners, such as severely disabled people and carers, who qualify for additional amounts, is higher than the standard minimum guarantee.)
State Earnings-Related Pension Scheme (SERPS)	The forerunner of the <b>State Second Pension</b> , which provides an earnings-related <b>National Insurance</b> pension based on contributions.
State Pension age (SPA)	The minimum age at which an individual can claim their <b>State Pension</b> . It is currently 65 for men and 60 for women born before 6 April 1950. The <b>State Pension age</b> for women born on or after that date will gradually increase to 65 between 2010 and 2020. The Government has proposed increasing the State Pension age for both men and women from 65 to 68, with the first increase from 65 to 66 being phased in between 2024 and 2026 and the subsequent two increases being similarly phased in over two years starting in 2034 and 2044.
State Second Pension (S2P)	The earnings-related <b>National Insurance</b> pension paid in addition to <b>basic State Pension</b> – gives a more generous pension than would have been provided by <b>SERPS</b> for: low and moderate earners; carers who are looking after young children or a disabled person; and long-term disabled people with broken work records. Under the Government's proposed reforms, S2P will be simplified so people will more easily be able to work out the minimum pension they will get from the State. A new flat rate amount of £1.40 a week pension for each qualifying year will replace the great complexity of the existing S2P flat rate calculation. The £1.40 will be revalued with earnings during a working life and with prices in retirement. A residual earnings-related scheme for those earning above £12,500 will gradually be withdrawn over 20 years.

<b>Tax credits</b>	There are two main types of tax credit. Working Tax Credit is an income-related credit for working adults and Child Tax Credit is an income-related credit payable to families with responsibility for children, whether they are in or out of work.
<b>Tax-free lump sum</b>	Twenty-five per cent of pension saving may be taken as a tax-free lump sum. This 25 per cent may include protected rights but not the Guaranteed Minimum Pension.
<b>Tax relief</b>	Individuals making contributions to tax-approved pension schemes receive tax relief at their marginal tax rate (for example, a standard-rate taxpayer will receive tax relief at 22 per cent). Individuals contributing to <b>stakeholder pensions</b> receive tax relief at a minimal rate of 22 per cent. Individuals with very low or no tax liabilities can also receive 'tax relief' at 22 per cent on contributions of up to £2,808 a year. Employers' contributions are made from gross profits and thus are both tax- and <b>National Insurance</b> -privileged.
<b>Tax simplification</b>	The Government introduced a new tax regime for pensions which took effect on 6 April 2006. Simplification has swept away the eight previously existing tax regimes and replaced them with a single universal regime for tax-privileged pension savings. A key feature is that, instead of the annual limits on contributions, there is a lifetime annual limit of £1.5 million of tax-advantaged pension saving.
<b>Trivial commutation</b>	If an individual's total pension accumulation is less than 1 per cent of the lifetime limit on tax relievable pension saving (£15,000 on 2006/07) then individuals are not required to annuitise their fund and can instead take it as a taxable lump sum.
<b>Unfunded pension scheme</b>	Pension schemes that are not backed by a pension fund. Instead, current contributions are used to pay current pensions along with other funds provided by the employer.
<b>Upper Earnings Limit (UEL)</b>	The upper limit on earnings for the purposes of calculating entitlement to the <b>State Second Pension</b> . Also the upper limit for most employee <b>National Insurance</b> contributions. In 2006/07 it is £33,540 a year or £645 a week.
<b>Upper Earnings Threshold (UET)</b>	An intermediate point prior to the <b>Upper Earnings Limit</b> , which affects the accrual of the <b>State Second Pension</b> .
<b>Working-age population</b>	Generally defined as those aged 16 to State Pension age.

## List of abbreviations

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ABI	Association of British Insurers
ANC	Annual Management Charge
BME	Black and Minority Ethnic groups
DDA	Disability and Discrimination Act
DEL	Departmental Expenditure Limit
GAD	Government Actuary's Department
IMA	Investment Management Association
NAPF	National Association Pension Funds
NDPB	Non-Departmental Public Body
NIC	National Insurance Contribution
NMW	National Minimum Wage
NPSS	National Pension Saving Scheme
OGC	Office of Government Commerce
ONS	Office for National Statistics
PAEB	personal accounts earnings band
PPF	Pension Protection Fund
TPR	The Pensions Regulator