Jargon Buster

Pensions

A

Additional Voluntary Contribution (AVC)
An AVC pension can be used as a way of building up your pension retirement savings alongside your existing workplace pension. They are set up by your employer to allow you to make additional contributions outside of the contribution amounts on your main workplace pension scheme, however not all employers offer them.

Annual Allowance
The pension annual allowance is the maximum amount that you can contribute into your pension each tax year and benefit from tax relief.

Annual Management Charge
This charge is to cover the cost of administering your pension plan and managing any funds within it.

Annuity
You can buy an annuity with your pension fund. It pays a regular guaranteed income, usually for life. The annuity can only be bought once you reach the minimum retirement age (currently 55). The amount of income payable will depend on the annuity rate offered by the respective insurance provider. It is dependent on a number of factors including age, health and current market rates.

Auto-enrolment
Is the process in which employees within an organisation who meet a specific criteria are automatically made a member of a workplace pension scheme which is set up for them by their employer.

B

Beneficiary
Is the person or people nominated by you to benefit from your pension funds should anything happen to you

C

Contributions
Is the term used to describe the action of putting money into your pension. They are usually determined as either a fixed amount or based on a percentage of your earnings.

Crystallised
Is a term given to a pension where you have started taking pension benefits from.
Deferred member
When you are referred to as a deferred member, it means that you once paid into an active pension scheme but are no longer making any contributions.

D

Defined benefit pension
A defined benefit (or final salary) pension scheme guarantees a fixed income when you retire. The income is based on your salary at the point you leave the company and how many years you have paid into the scheme by the time you retire.

Defined contribution pension
A type of pension where the amount you get when you retire depends on how much you (and your employer, if applicable) put in and how much your money grows, including investment returns and tax relief.

E

Enhanced annuity
A regular income that can be bought with your pension fund once you reach the minimum pension age. The rate of income payable is higher than a standard annuity because of your medical history or current state of health.

F

Final salary scheme
See defined benefit pension definition above.

FCA – The Financial Conduct Authority (FCA)
Is the financial regulatory body in the United Kingdom.

FOS – The Financial Ombudsman Service
Settles disputes between customers and businesses that provide financial services.

Flexi-access drawdown
Is a way of taking some of your pension income to live on during retirement. A tax-free lump sum of up to 25% of your overall pension fund can be taken, and the remainder can be left invested. Flexi-access drawdown allows you to take the remaining money (outside of tax-free cash) as flexible taxable withdrawals when you like, until your pension fund is exhausted.

Funds
Is a type of investment that pools together money from many people and is used to invest in a variety of stocks and bonds for a specified objective.

G

Guaranteed annuity rate
If your pension pot benefits from a guaranteed annuity rate then the amount of income you receive from your provider is likely to be higher from your existing provider than buying an annuity from another insurance provider.

I

Income drawdown
Is another term used for flexi-access drawdown.

Inflation
Is the general increase in prices over time. It also refers to the fall in the purchasing value of money over time too.

Investment
Refers to any mechanism that is acquired with the purpose of generating future income

J

Joint annuity
This pays a regular retirement income for the rest of your life. When you die, it provides a regular income (at the same or a reduced amount) to your surviving husband, wife, civil partner or dependent.

L

Lifetime allowance
Is the maximum amount of pension funds you can make before a Lifetime Allowance tax charge is applied. As of the March 2023 budget announcement, this pension legislation will be abolished from April 2024.

O

Opting in
When an individual agrees to join the workplace pension scheme and commence monthly pension contributions. Depending on your age you will automatically be opted in/enrolled into your workplace pension scheme.

Opting out
Is when a member of a workplace pension scheme decides to leave the scheme and therefore both the employee and employer contributions stop.

P

PCLS (Pension Commencement Lump Sum)
Often referred to as 'tax free cash', this refers to the tax free payment, which is typically 25% of the pension value, that can be taken when accessing pension benefits.

Pension scheme
Is simply a savings plan used to help you save for your retirement.

Personal pension
Is a pension set up by yourself where only you contribute and benefit.

Private pension
Is another term for a Personal Pension

S

Salary sacrifice
Is where an employee agrees to a reduction in their gross salary that is equal to their pension contribution. In exchange, the employer then agrees to pay the total pension contribution. The benefit of this method is that both parties save on National Insurance Contributions, which can lead to an increase in the employee's net take home pay or the total amount of contributions going into the pension plan.

Shares
A share represents a portion of ownership in a company.

Small pot lump sum
If you have reached the minimum retirement age (currently 55), you can take a maximum of three pension funds worth up to £10,000 each as a single lump sum. The first 25% is tax free, but you'll pay tax at your marginal rate of tax on the rest of the money.

Stakeholder pension
Is a type of defined contribution pension plan which must adhere to strict government requirements around charges, minimum contribution levels and funds available to invest.

State Pension
Is a regular payment from the government most people can claim when they reach State Pension age.

State Pension age
Is the earliest age that someone can start to access their State Pension.

T

Tax relief
The government boosts your contributions into a pension through tax relief to encourage saving. This means that if you are a basic rate taxpayer you will receive an extra 20% on your eligible contributions. For example, if you make a pension contribution of £80 then £100 will go into your pension plan including tax relief. Higher rate taxpayers are entitled to 40% tax relief with additional rate tax payers entitled to 45%.

Tax-free cash
See PCLS

Trust
A legal arrangement under which trustees hold the assets of the pension scheme in a trust fund for the benefit of the members of the scheme.

Trustee
A person or company, acting separately from the employer, who holds the assets in the trust for the beneficiaries of the scheme. Trustees are responsible for ensuring that the pension scheme is run properly and that the members benefits are secure.

U

Uncrystallised
Is the term used to describe a pension that has not been accessed yet.

Units
A proportionate ownership share in a pension fund’s pool of assets.

V

Volatility
An investment term that describes when a stock market or investment fund experiences sharp price movements for example a sudden fall in value or price rise.

W

Workplace pension
Is a savings scheme arranged by your employer to help you save for your future. Contributions are taken from your wages and your employer also pays into it.