



Pension Jargon Buster

Key terminology explained



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A Day

6 April 2006 – the day the government pension simplification rules came into effect.

AVCs – Additional Voluntary Contributions

A pension top-up for an occupational pension. You pay contributions into a scheme run by your employer to boost your main pension.

FSAVCs – Free-Standing Additional Voluntary Contributions

A pension top-up policy for an occupational pension, but separate from your employer's pension scheme and normally run by an insurance firm.

Group Personal Pension

A type of personal pension offered by some employers but not classified as occupational (see money purchase pension).

Lifetime annuity

A lifetime annuity converts money from your pension fund into pension income, which is taxed. There are different types to suit your circumstances.

Money purchase pension

Some occupational pensions and all personal, group personal, stakeholder, FSAVCs and some AVCs are money purchase pensions. Your contributions are invested in, for example, the stockmarket. The size of your fund depends on your contributions and how well your investments do. At retirement, you have a choice of options to provide you with a retirement income.

Occupational pension

Occupational pensions are only available through employers and run by pension scheme trustees. There are two types – salary-related (defined benefit) and money purchase (defined contribution).

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Personal pension

A pension policy you take out yourself from an insurance company or another financial institution and into which you pay contributions. It may also be offered by employers. See money purchase pension.

Protected rights pension

The part of your pension fund which was used to contract out of the State Second Pension (SERPS or S2P) that must be used to buy a protected rights annuity.

Salary-related pension scheme (final salary or defined benefit)

A type of occupational pension. The amount of pension you get is worked out on your salary at or near retirement, or when you left employment, and your pensionable service.

Stakeholder pension

A type of personal pension that has to meet certain standards set by the government. You can take one out yourself or it may be available through your employer, but is not classified as occupational. See money purchase pension.

State Pension

The Pension Service (part of the Department for Work and Pensions) will pay your basic State Pension based on your National Insurance contribution record. You may also qualify for the additional State Second Pension based on your earnings and National Insurance contributions – see below.

State Second Pension

The State Second Pension is an additional State pension paid on top of your basic State Pension. This was called SERPS. Self-employed people cannot build up a State Second Pension.

Tax-free lump sum

An amount of cash set by tax law which you can take at retirement free of tax. Salary-related occupational pension schemes may have different rules on the amount of tax free cash you can take.