help & information

odyssey

jargon buster

Pensions can be daunting at the best of times and can be made more difficult when industry jargon is used in documentation and communications. This Jargon Buster has been put together to help you understand some of the words, terms and phrases that are regularly used when dealing with pensions.

annual allowance

The Annual Allowance is the maximum amount of pension savings that can be made in a tax year that will qualify for tax relief. In simple terms, it is usually the amount of money that can be contributed by you, your employer, or by someone on your behalf.

This maximum amount, which is £40,000 at present, can vary depending on your earnings (see also: Tapered Annual Allowance) or whether you have accessed any of your pension savings (see also: Money Purchase Annual Allowance).

annuity

An annuity is a type of retirement income that provides you with a regular income and is normally payable for life. It can come with various options as to how frequently payment might be made, whether it increases, and whether payments could continue after death. It is usually purchased from an insurance company using the money built up in a pension scheme.

beneficiary

A beneficiary is usually a person that is entitled to receive some of your pension benefits in the event of your death. The beneficiary could be a 'nominated' beneficiary, which means that you have decided yourself that you would wish them to have some of your pension benefits. The beneficiary could also be an organisation, like a charity or trust, that you would prefer the pension to be passed to.

crystallise or crystallisation

Crystallisation occurs when you access some or all of your pension savings. For example, if you had £100,000 in your pension and wished to access £50,000, you would 'crystallise' the £50,000.

capped drawdown

Capped Drawdown is a means by which you 'draw down' monies from your pension scheme on an occasional, or regular, basis. The amount that you draw is subject to a maximum annual limit that is determined by the Government.

This limit is set for three years and is calculated, or re-calculated, based on your age, the money in your pension, and rates given by the Government. Capped Drawdown is a historic form of taking benefits and no new instances of Capped Drawdown can now be set up.

See also: Drawdown, Flexi-Access Drawdown

defined contribution scheme

A defined contribution pension scheme (also known as a money-purchase pension scheme) is a type of pension scheme where the retirement 'pot' is built up based on contributions you and your employer might make, plus investment growth.

When you access your pension savings, the value of the pot is the amount that can be used to provide you with tax-free cash and taxable income.

defined benefit scheme

A defined benefit pension scheme (also known as a final salary pension scheme) is a type of pension scheme where the retirement amount is based on your salary and how long you have worked for your employer.

When you access your pension savings, you are normally provided with a tax-free sum together with an annual income that is payable for life.

dependant

A dependant is a type of beneficiary (see also: Beneficiary) of your pension scheme. A dependant is normally an individual who is financially dependent on you. This would normally include spouses, civil partners and children (or those in further education up to the age of 23). It would also include someone who was mentally or physically disabled or is otherwise financially dependent. The definition can sometimes depend on what the pension scheme rules say.

drawdown

Drawdown is a means by which an individual can access their pension savings. Drawdown usually offers great flexibility, allowing you to vary the amount of income you want, to take one-off payments, change the regularity of those payments and so on.

Income taken through drawdown is taxable under the PAYE system.

See also: Flexi-Access Drawdown, Capped Drawdown

emergency tax code

When accessing your pension savings for the first time, it is often standard practice for a provider to make payments to you through the PAYE system and allocate an emergency tax code to you. This is because HM Revenue & Customs insist on this process.

The effect of the emergency tax code is, in simple terms, that you will not benefit initially from all of the personal tax allowance that might be available to you, and generally your income might be taxed at a greater rate. This excess tax can normally be reclaimed from HM Revenue & Customs afterwards.

enhanced annuity

Sometimes, due to an individual's health or lifestyle, their life expectancy might be calculated to be shorter than average. Because of this, the amount of income that might be payable when buying an annuity may increase.

See also: Annuity

enhanced protection

Enhanced Protection is a form of 'Protection' against the Lifetime Allowance. The Lifetime Allowance caps the amount of pension fund an individual can have, and the excess then becomes taxable above this level.

Individuals with Enhanced Protection will not generally be subject to this additional taxation, so they can access a pension fund above the Lifetime Allowance without issue. They are not allowed, however, to make any further contributions to pension schemes.

See: Lifetime Allowance, Protection

final salary pension

See: Defined Benefit Scheme

Financial Conduct Authority (FCA)

The Financial Conduct Authority (FCA) is the UK's financial services regulator. It is responsible for many areas of practice, ranging from regulating financial advisers and advice, to regulating investment providers and pension operators. All SIPP Providers (a company able to operate a SIPP) must be regulated by the FCA.

fixed protection

Fixed Protection is a form of 'Protection' against the Lifetime Allowance. The Lifetime Allowance caps the amount of pension fund an individual can have, and the excess then becomes taxable above this level.

Individuals with Fixed Protection will generally have a higher entitlement to a Lifetime Allowance. In other words, they will be able to build pension savings up to a fixed higher level than the standard Lifetime Allowance, but any money accessed above this fixed higher level then becomes taxable in the normal way. They cannot make any further contributions to pension schemes.

Fixed Protection comes in various forms, based on the fact that the Government has reduced the Lifetime Allowance several times. At the time of these reductions, anyone could apply for Fixed Protection.

See: Lifetime Allowance, Protection

flexi-access drawdown

Flexi-access drawdown is a means by which you can access your pension savings. Income can be drawn on a one-off basis, or it could be set up so that you receive a regular payment. There are no limits as to the amount that can be drawn in one go, and it is possible for the entire pension fund to be accessed, using it all up. Income is taxed through the PAYE system.

See also: Drawdown

HM Revenue & Customs (HMRC)

HM Revenue & Customs (HMRC) is the department of the Government that is responsible for collecting tax. HMRC will typically provide guidance on areas relating to pension schemes.

income drawdown

See: Drawdown

individual protection

Individual Protection is a form of 'Protection' against the Lifetime Allowance. The Lifetime Allowance caps the amount of pension fund an individual can have, and the excess then becomes taxable above this level.

Individuals with Individual Protection will generally have a higher entitlement to a Lifetime Allowance. In other words, they will be able to build pension savings up to a fixed higher level than the standard Lifetime Allowance, but any money accessed above this fixed higher level then becomes taxable in the normal way.

Individual Protection comes in various forms, based on the fact that the Government has reduced the Lifetime Allowance several times. At the time of these reductions, only those with pension savings above the reduced level the Government was introducing could apply for Individual Protection. Additionally, unlike other forms of Protection, they could continue to make contributions afterwards if they wished.

See: Lifetime Allowance, Protection

inflation

Inflation is an increase in the general cost or price of goods and services. It means that the same amount of money, when compared over different years, will not be able to buy the same amount of those goods and services.

Generally, the effect of inflation is to make goods and services more expensive in later years, meaning that your pension (for example) would be able to buy less and less if it stayed the same each year.

lifetime allowance

The Lifetime Allowance is the maximum amount of pension fund that an individual can have. Any amount of money over the Lifetime Allowance is subject to separate special taxation.

The Lifetime Allowance is currently £1m. If any pension monies are accessed in excess of this amount, they are taxed: if a lump sum is drawn, 55% tax applies, and if the excess is drawn as income, a 25% tax applies in addition to the PAYE tax that would be applicable.

money purchase pension

See: Defined Contribution Scheme

money purchase annual allowance

The Money Purchase Annual Allowance (MPAA) is a further reduction on the amount of money that can be paid into a pension scheme. The MPAA applies when you access your pension benefits 'flexibly'.

For example, if you draw income from a Flexi-Access Drawdown pension, then you would become subject to the MPAA. This reduction only applies to Money Purchase pension schemes.

The MPAA is currently £4,000.

See also: Annual Allowance, Flexi-Access Drawdown

nominee

A Nominee is an individual nominated by a pension scheme member to receive death benefits from their pension scheme.

See also: Dependant, Nominee, Successor

occupational pension scheme

An occupational pension scheme is a type of registered pension scheme that is established by a Sponsoring Employer for the benefit of its employees. Usually both the employer and the member will make contributions to the pension scheme, and there will often be a limited number of standard investment options.

An occupational pension scheme can be large or small and does not necessarily have specific rules governing how much is to be paid by an employer or an employee, unless it is a Workplace Pension Scheme.

See also: Defined Benefit Scheme, Defined Contribution Scheme, Workplace Pension Scheme

pay as you earn (PAYE)

PAYE is the taxation system used by HM Revenue & Customs to tax pension payments that are paid in the form of income. PAYE also applies to other forms of paid income, such as income earned through employment. Income from pension is added to other forms of income in order to determine how much tax is payable to HM Revenue & Customs.

pension commencement lump sum

Pension Commencement Lump Sum is the amount of tax-free cash that is payable when you access your pension scheme. Normally, you will be entitled to take 25% of the amount that is being accessed as a tax-free lump sum.

In some situations, the tax-free cash could be higher or lower than this amount. This might depend on the type of pension scheme and what the rules of that scheme say.

personal pension scheme

A Personal Pension Scheme is a type of registered pension scheme that is designed for an individual and is normally one that you arrange yourself. There are many types of personal pension scheme, some of which offer limited investment choice, and others which offer a wide range of investment choice.

A personal pension scheme will provide money purchase pension benefits, which means that the pension benefits you receive will be based on how much is paid in and how the investments perform.

See also: SIPP, Stakeholder Pension Scheme, Workplace Pension Scheme

primary protection

Primary Protection is a form of 'Protection' against the Lifetime Allowance. The Lifetime Allowance caps the amount of pension fund an individual can have, and the excess then becomes taxable above this level.

Individuals with Primary Protection will generally have a higher entitlement to a Lifetime Allowance. In other words, they will be able to build pension savings up to a fixed higher level than the standard Lifetime Allowance, but any money accessed above this fixed higher level then becomes taxable in the normal way.

Primary Protection was introduced at the time the Government introduced the Lifetime Allowance. At that time, only those with pension savings above the Lifetime Allowance could apply for Primary Protection. Additionally, unlike other forms of Protection, they could continue to make contributions afterwards if they wished.

See: Lifetime Allowance, Protection

protection

Protection is a word used to describe a number of different means by which individuals can 'protect' themselves from taxation resulting from the Lifetime Allowance. The Lifetime Allowance restricts the amount of pension savings that an individual can have. Savings above the Lifetime Allowance are normally taxable.

Protection was introduced by the Government to deal with the fact that prior to the legislation being made, individuals had pension savings in excess of the maximum limit. Since then, the Government has reduced the Lifetime Allowance a number of times, resulting in a number of types of Protection to protect those who had savings above the reducing level.

The types of Protection are: Enhanced, Primary, Fixed and Individual. Of the latter two, Fixed and Individual, there are several versions, coinciding with when the Government reduced the Lifetime Allowance.

registered pension scheme

A registered pension scheme is a pension scheme that has been registered with HM Revenue & Customs. A registered pension scheme is entitled to benefit from various tax incentives, such as tax-relief on pension contributions, and tax-free investment growth.

See also: Occupational Pension Scheme, Personal Pension Scheme, SIPP, SSAS

self-invested personal pension (SIPP)

A Self-Invested Personal Pension (SIPP) is a type of personal pension scheme that allows an individual a wide variety of choice relating to the investments that can be held. As well as the more 'traditional' forms of investment within a pension, such as equities or funds, a SIPP can allow investment into such things as commercial property, gold, cash and term deposits and so on.

small self-administered scheme (SSAS)

A Small Self-Administered Scheme (SSAS) is a type of occupational pension scheme that allows a wide variety of choice relating to the investments that can be held. A SSAS is established by a Sponsoring Employer (usually a Limited Company) for a small group of members, who are often all Directors or family members.

As well as the more 'traditional' forms of investment within a pension, such as equities or funds, a SSAS can allow investment into such things as commercial property, gold, cash and term deposits, as well as allowing for loans to be granted to the Sponsoring Employer.

stakeholder pension scheme

A Stakeholder Pension Scheme is a type of personal pension scheme that must meet specific Government requirements, for example on charges.

See also: Personal Pension Scheme

successor

A Successor is an individual who has been nominated to receive pension benefits following the death of a beneficiary or previous successor. The Successor becomes entitled to the remaining pension fund that has not been used up by the previous individual who was receiving pension benefits following the death of the original Member.

See also: Beneficiary, Dependant, Nominee

tapered annual allowance

The Annual Allowance is the maximum amount of pension savings that can be made in a tax year. In addition to this maximum, the Government introduced stricter requirements for individuals who had earnings over £150,000.

Broadly, for those individuals, their Annual Allowance is reduced down (tapered) by £1 for every £2 above the £150,000 limit. This is subject to an overall maximum reduction down to £10,000 for those earning £210,000 or more.

See also: Annual Allowance

tax-free cash

See: Pension Commencement Lump Sum

uncrystallised funds pension lump sum

An Uncrystallised Funds Pension Lump Sum (UFPLS) is a means by which you can access your pension savings. When accessing your savings via a UFPLS, normally 25% of the amount payable to you is tax free, and the balance is taxable through the PAYE system. A UFPLS can be any amount from your pension savings, and you can even draw the entire amount of your pension savings in one go.

If an individual accesses their pension savings using UFPLS they will become subject to the Money Purchase Annual Allowance, which can affect future pension contributions.

See also: Money Purchase Annual Allowance

workplace pension scheme

A Workplace Pension Scheme is a type of registered pension scheme that is set up by an employer as a means by which its employees can save for retirement. It is subject to certain rules set by the Government concerning, for example, how individuals join and how much is contributed.

A Workplace Pension Scheme can be set up as a Personal Pension Scheme or an Occupational Pension Scheme.

See also: Personal Pension Scheme, Occupational Pension Scheme