

Glossary

Active member

In relation to an occupational pension scheme, a person who is in pensionable service under the scheme.

Acronyms

- **LDI**
Liability-driven investment
- **ONS**
Office for National Statistics
- **SSF**
Scheme specific funding
- **NAPF**
National Association of Pension Funds

Administration

See Company: trading status.

Aggregate funding position

Sum of assets less sum of liabilities, or sum of scheme funding positions. In a pool of schemes where schemes in deficit outweigh schemes in surplus there is an aggregate deficit.

Assessment period

The time when a scheme is being assessed to see if the Pension Protection Fund can assume responsibility for it.

Buy-out basis

The level of coverage the current assets will provide if all benefits were to be bought out in the name of the individual member with an insurance company. See also full buy-out.

Closed (to new members)

The scheme does not admit new members. Existing members can continue to accrue pensionable service/benefits.

Company: business types

- **Limited liability partnerships**
These are a type of alternative corporate business vehicle that gives the benefits of limited liability but allows its members the flexibility of organising their internal structure as a traditional partnership.

- **Partnership**

The relationship that exists between individuals who run a business together with a view to making a profit. The rights of each partner are governed by a partnership agreement or the Partnership Act 1980.

- **Private company**

A company registered under the Companies Act 1985 that is not a public limited company. A private company may be registered as a limited or unlimited liability company. It must have at least one member and at least one director. There is no minimum share capital requirement.

- **Public limited company**

A company registered under the Companies Act 1985. It must have at least two members and two directors and a share capital that complies with the authorised minimum amounts. It can offer its shares to the public and may be among the public companies that trade on the Stock Exchange.

- **Registered charity**

An institution (corporate or not) which is established for exclusively charitable purposes and which is registered with the Charity Commission.

- **Sole trader**

An individual who carries on a business on his or her own account. The individual is fully liable for any losses of the business and pays income tax on any taxable profits of the business.

Company: trading status

- **Active/currently trading**

The company is continuing to trade.

- **Administration**

One of the main corporate insolvency rescue procedures. It can be a precursor to a company voluntary arrangement under which the company is restructured and passed back to its directors. In an administration, the insolvency practitioner, as officer of the court, takes over powers of management of the business (but is able to delegate these back to management) with the objective of rescuing the company or (if that is not possible, or if the result would be better for creditors) rescuing the business as a going concern and providing protection from actions by creditors while doing so. A partnership can also be subject to administration as a prelude to a partnership voluntary arrangement.

- **Dissolved**

The company has ceased trading. All assets of the company have been disposed of and/or it has been taken off the register at Companies House.

- **Dormant**

The company is not currently trading but remains a corporate entity and/or remains on the register at Companies House.

- **In liquidation**

Either a creditor or the company can apply to the courts to put the company into liquidation. It is the process which eventually brings a company's existence to an end after distributing its assets to creditors/shareholders.

- **Liquidated**

Following the liquidation process, the company has ceased trading. All assets of the company have been disposed of and/or it has been taken off the register at Companies House.

- **Receivership**

(Also known as administrative receivership or Law of Property Act (LPA) 1925 receivership.) Non-court procedure whereby an insolvency practitioner takes control of the whole of a company's assets under the terms of a charge or mortgage.

Default risk

The risk that the borrower will be unable to satisfy the terms of its borrowing obligations with respect to the timely payment of interest and repayment of the amount borrowed.

Deferred member

In relation to an occupational pension scheme, a person (other than an active or pensioner member) who has accrued rights under the scheme.

Deficit reduction contribution

A one-off (or irregular) contribution made by a scheme sponsor to a pension scheme to reduce the level of deficit.

Defined benefit

Benefits are worked out using a formula that is usually related to the members pensionable earnings and/or length of service. These schemes are also referred to as final salary or salary related pension schemes.

Defined contribution

Benefits are based on the amount of contributions paid, the investment returns earned and the amount of pension this money will buy when a member retires. These schemes are also referred to as money purchase pension schemes.

Dun & Bradstreet (D&B)

A provider of insolvency scores.

FRS17

In November 2000, the UK Accounting Standards Board released a new financial reporting standard, numbered 17 ('FRS17'). This sets out the accounting treatment for retirement benefits such as pensions and medical care during retirement. It replaces SSAP 24 ('Accounting for pension costs') and UITF Abstract 6 ('Accounting for post-retirement benefits other than pensions').

Full buy-out

The cost of insuring a pension scheme in the private market. The discount rate applied to liabilities would be more prudent in general than the discount rate applied to section 179 and MFR valuations. The benefit assumed in private insurance is usually non-capped and thus could be greater than Pension Protection Fund coverage.

Gilt yield

The yield, if held to maturity, of a government (non-indexed) bond.

Hybrid scheme or partial defined benefit scheme

A scheme that can provide defined benefits and defined contribution benefits. A scheme providing benefits on a defined contribution basis but that is or was contracted out of the state scheme on either a GMP or Reference Scheme test basis is a common example of a hybrid scheme.

IAS19

An international accounting standard equivalent of FRS17.

Insolvency events

These are the insolvency triggers set out in the Pension Protection Fund legislation.

Insolvency risk

The risk that a borrower will have to close business due to its inability to service either the principal or interest of its debt. This is a more extreme event than a default. See also Insolvency events.

Insurance company

Insurance companies provide a range of services to pension schemes, including:

- asset investment;
- asset management;
- investment advice and expertise;
- custodian facilities; and
- scheme administration services.

Insurance managed funds

A unitised fund invested in multiple investment categories managed by an insurance company.

Insurance policy

Investment class: an annuity or a deposit administration contract purchased from an insurance company.

LTRM

The Pension Protection Fund's Long-Term Risk Model, which is based on stochastic simulations of economic scenarios and their respective impacts on assets and liabilities of pension schemes under coverage and the credit quality of the sponsoring employers.

Minimum funding requirement/valuation (MFR)

The MFR valuation was introduced to provide a uniform funding floor for defined benefit schemes. Schemes were required to be funded to a given level or, if they were not already at that level, to achieve it within a set period.

MFR roll-forward

Estimate of a section 179 liability derived from a Minimum Funding Requirement (MFR) calculation.

MQ5 data

The data from the ONS MQ5 enquiry is based on a sample of 350 pension schemes. This is comprised of around 100 local authorities and 250 public and private corporations (the PPF database excludes local authorities and public corporations). The sample has total assets of £1,100 billion, which is much higher than the PPF database. All schemes with more than 20,000 members are automatically included and schemes with less than 20,000 members are randomly selected. The sample is made up of what are known as 'superannuation and self-administered pension funds'. A self-administered pension fund is defined as an occupational pension schemes with units invested in one or more managed schemes or unit trusts; a superannuation pension fund is defined as a an organisational pension programme created by a company for the benefit of its' employees. The sample may also contain defined contribution schemes.

Open

The scheme continues to accept new members, and benefits continue to accrue.

Paid up (or frozen)

All contributions to the scheme have stopped and no further pensionable service accrues. Members' benefits for earlier service continue to be held and invested in the scheme.

Participating employer

An employer that has some (or all) employees who can join an occupational pension scheme. This term is usually used where there is more than one employer participating in a single scheme.

Pensioner member

A person who is currently receiving a pension from the scheme or from an annuity bought in the trustee's name.

Pension Protection Fund (PPF)

A statutory corporation run by the Board of the Pension Protection Fund, established under the Pensions Act 2004.

Pension protection levy

This is the annual amount that a pension scheme is charged by the Pension Protection Fund. It is composed of a scheme-based levy and a risk-based levy. It is similar to an insurance premium.

The Pensions Regulator

The UK regulator of work-based pension schemes, an executive non-departmental public body established under the Pensions Act 2004.

Principal employer

The employer named in the trust deed and rules of the scheme which usually has powers such as those to appoint trustees, amend the scheme rules or wind the scheme up. This is often the employer who set up the scheme, or its successor in business.

Risk-based levy

See pension protection levy. Calculated on the basis of a pension scheme's deficit and insolvency risk of the sponsoring employer.

Scheme actuary

The named actuary appointed by the trustees of a defined benefit occupational pension scheme to carry out specific duties set out in the Pensions Act 1995.

Section 179 (s179) valuation

To calculate the risk-based pension protection levy the Pension Protection Fund Board must take account of scheme underfunding. To obtain a consistent basis for determining underfunding, schemes can complete a Pension Protection Fund valuation (section 179). This valuation will be based on the level of assets and liabilities for the scheme. The liabilities will be based on the scheme benefits taking into account key features of the levels of compensation paid by the Board of the Pension Protection Fund as set out in Schedule 7 of the Pensions Act.

Scheme-based levy

See pension protection levy. Calculated on the basis of section 179 liabilities and the number of members participating in the pension scheme.

Scheme funding position

The difference between the assets and liabilities of a pension scheme (scheme deficit if negative, scheme surplus if positive).

Scheme funding valuation

New legislation on scheme funding came into force on 30 December 2005. The new requirements, introduced by the Pensions Act 2004, replace the minimum funding requirement and apply to occupational pension schemes providing defined benefits.

Scheme member

In relation to an occupational pension scheme, a scheme member is any person who:

- is an active member;
- is a deferred member;
- is a pensioner member;
- has rights due to transfer credits under the scheme; or
- has pension credit rights under the scheme.

This includes scheme members whose only entitlements are equivalent pension benefits (EPBs) as those rights were earned through pensionable employment. Members (for occupational and personal schemes) do not include dependants of members. Those whose only entitlements are lump sum benefits payable on death are also not included.

Scheme return notice

The Pensions Act 2004 set out the requirement to send occupational pension schemes a scheme return to complete. The information collected in the scheme return will further enable the regulator to perform its new role and responsibilities. The scheme return notice is issued to schemes to inform them that it is time to complete a scheme return.

Sectionalised scheme

A multi-employer scheme which is divided into two or more sections where:

- any contributions payable to the scheme by an employer in relation to the scheme, or by an employee of that employer, are allocated to that employer's section; and
- a specified proportion of the assets of the scheme is attributable to each section of the scheme and cannot be used for the purposes of any other section.

Some sections open/some sections closed

A scheme that has sections with different status types. For example the scheme may have a defined benefit section closed to new entrants, and a defined contribution section open to new entrants.

Swap

A contract calling for the exchange of payments over time. Often one payment is fixed in advance and the other is floating based upon the realisation of a price or interest rate.

Total deficit

Sum of scheme deficits, or sum of scheme funding positions for schemes in deficit only.

Trustees

- **Corporate trustee (non-professional)**
A company usually related to the employer (or the employer itself) set up to act as trustee for a scheme or a series of related or associated schemes.
- **Member-nominated trustee (MNT)**
A person nominated by the members (and sometimes elected) to be a trustee of the scheme. A MNT may be a member of the scheme. A MNT is appointed in accordance with sections 16-21 of the Pensions Act 1995.
- **Pensioner trustee**
A pensioner trustee is an individual or a company recognised by HMRC (Inland Revenue) as having pensions expertise.
- **Professional trustee (including corporate)**
A professional trustee not connected with the employer and not a scheme member. The trustee could be a corporate trustee company or an individual. A professional trustee provides trusteeship and trustee services to a number of unrelated and non-associated pension schemes.
- **Statutory independent trustee**
A trustee appointed to a scheme where an insolvency practitioner has been appointed over an employer in accordance with sections 22-26 of the Pensions Act 1995.

Voluntary form reporting

Electronic forms are available on the Pension Protection Fund's website for pension schemes to provide data regarding sectionalised schemes, contingent assets, participating employers, scheme structure, estimates of pension fund deficits on a section 179 basis, deficit reduction contributions and block transfers.

Winding up/wound up

After the wind-up is complete (the scheme is wound up), there will be no assets or liabilities left in the scheme, and the scheme will cease to exist as a legal entity. Winding up describes the process of reaching wind-up from normal ongoing status. To make sure that members will still receive benefits, there are several options:

- transferring pension values to another pension arrangement;
- buying immediate or deferred annuities; or
- transferring the assets and liabilities of the scheme to another pension scheme.

The scheme must be wound up in accordance with the scheme rules and any relevant legislation.

How to contact us:

Pension Protection Fund

Pensions Protection Fund

Knollys House
17 Addiscombe Road
Croydon
Surrey
CR0 6SR

www.pensionprotectionfund.org.uk

Phone: 0845 600 2541
Textphone: 0845 600 2542
Fax: 020 8633 4903
Email: purplebook@ppf.gsi.gov.uk

The Pensions Regulator

The Pensions Regulator

Napier House
Trafalgar Place
Brighton
BN1 4DW

www.thepensionsregulator.gov.uk
www.trusteetoolkit.com

Customer Support

Phone: 0870 606 3636
9am to 5pm, Monday to Friday
Textphone: 0870 243 3123
Fax: 0870 241 1144
Email: purplebook@thepensionsregulator.gov.uk