



## Pensions Terminology

There are many words used by the Department of Work & Pensions or by the Pensions Service that have a special meaning. We use those words and other terms because of their precise meaning. Where these words are used, they are usually shown with capital letters and in bold. This glossary will help you understand their meaning.

**Additional State Pension** means an additional amount of British State Pension earned through payment of higher **National Insurance Contributions**. Higher **National Insurance Contributions** were paid by workers in the UK who are not **contracted out**. Over the years, various names were given to the supplementary schemes that required higher National Insurance Contributions included **graduated pension**, **SERPS** and **State Second Pension**.

**Basic State Pension** is the pension paid to anyone who has reached State Pension Age and who has made the necessary number of **National Insurance Contributions**.

**British** is the adjective relating to United Kingdom Of Great Britain and Northern Ireland.

**Contracted Out** An employee who was a member of an approved **Workplace Pension Scheme** was not required to make higher National Insurance Contributions and was known as being **contracted out**.

**Defined Benefit Scheme** is a **Work Pension Scheme** where you will receive a pension upon reaching retirement based on your wages or salary in the years just before retirement. Sometimes, **Defined Benefit Schemes** permit you to take a lump sum equivalent to the value of your pension entitlement. The sponsor of the Defined Benefit Scheme, usually the employer, takes the risk that the contributions are insufficient to fund the pension. Another name for a Defined Benefit Scheme is a Final Salary Scheme.

**Defined Contribution Scheme** is a **Workplace Pension Scheme** where the amount you receive on reaching retirement age depends on how much you and your employer have contributed and the income and change in value that resulted from investing the contributions. The risk that the amount received at retirement is insufficient to fund a reasonable lifestyle is born by the worker.

**Graduated Pension** is the **Additional State Pension** that was in operation between 6th April 1961 and 5th April 1975.

**National Insurance Contributions** are contributions to the UK National Insurance Scheme. For people living in the UK, they entitle the payer to treatment under the National Health Service, to certain welfare benefits and to the British State Pension. The latter is subject to having paid the necessary minimum of contributions.

**National Insurance Number** is the number allocated to you when you first started work in the UK. The format is XX NN NN NN X where X is a letter and N is a number.

**New State Pension** is the name of the pension paid to people who reach State Pension Age after 5th April 2016.

**SERPS** stands for State Earnings Related Pension Scheme or State Earnings Related Pension Supplement. It is the **Additional State Pension** that was in operation between 6th April 1978 and 5th April 2002.

**Spouse** includes a husband or wife or civil partner but does not include a de facto relationship

**State Pension Age** is the age at which a person is entitled to receive British State pension. It was originally the 60<sup>th</sup> birthday for women and the 65<sup>th</sup> birthday for men but it is in the process of being increased to the 68<sup>th</sup> birthday for both genders. Consequently, your **State Pension Age** varies dependant on your date of birth.

**State Second Pension** is the **Additional State Pension** that was in operation between 6th April 2002 and 5th April 2016.

**Triple Lock** means the rules for annual increases in the **British State Pension** or **New State Pension** paid to people in the UK and many other countries but not to people in Australia. The term recognises that the annual increase is the highest of the annual increase in average earnings in the UK, the annual increase in consumer prices in the UK or 2.5%.

**Voluntary Contributions** are **National Insurance Contributions** paid voluntarily by people as a way of increasing their contributions history.

**Workplace Pension Scheme** is a retirement pension scheme arranged by an employer in the UK for its workers. Some workplace pension schemes are called occupational pension schemes, works pension schemes, company pension schemes or work-based pension schemes. Workplace Pension Schemes usually require an employee to contribute to the scheme in addition to employer contributions. Workplace Pension Schemes may either be a **Defined Contribution Scheme** or a **Defined Benefit Scheme**. Some schemes are a hybrid of a Defined Benefit Scheme and a Defined Benefit Scheme.