Glossary

The following glossary contains terms relating specifically to the PPF assessment period.

Glossary

Admissible rules
When a pension scheme enters an assessment period, a review is undertaken to identify changes to the pensions scheme rules in the three years before the assessment date:

- any discretionary increase under the pension scheme rules that were made or came into effect which were made or took effect, and
- rules that come into force by reference to an insolvency event in relation to the employer or any associated event.

If the review establishes that immediately before the assessment date, the aggregate effect of recent rule changes resulted in an overall increase in the pension scheme's liabilities those changes will be disregarded by the PPF leaving only those rules which are admissible. Additionally any pension scheme pension scheme rule which came into operation through the winding-up of the pension scheme or any associated event will be treated as void.

Assessment date
The date of the qualifying insolvency event.

Assessment period
The period following the qualifying insolvency event during which the PPF determines whether it should formally assume responsibility for the pension scheme. During this period the scheme continues to be managed by the trustees, subject to various restrictions and controls.

The assessment period is likely to last a minimum of one year and could be longer depending on the complexity of the financial situation of both the employer and the scheme.

PPF compensation
Individuals who, at the assessment date, have already reached normal pension age or are in receipt of a survivor's pension or a pension on the grounds of ill health:

- are compensated at the level of 100 per cent of their current pension in payment at the assessment date
- the pension in respect of service from 6 April 1997 will increase, and
- this increase is in line with the Retail Prices Index to a maximum of 2.5 per cent per annum.

For those individuals who have not reached normal pension age at the assessment date and are not in receipt of a pension on the grounds of ill health or a survivor's pension:

- the compensation level is 90 per cent of their accrued benefits at the assessment date
- revaluation in line with the Retail Prices Index for each year between the assessment dates and the commencement of compensation payments
- subject to an overall cap adjusted according to the age at which compensation comes into payment, and
- once in payment, indexation as for retired members.

Contracting out
Using a pension scheme to meet certain conditions to provide benefits (GMPs, Protected Rights) in place of the State Second Pension. Employees and the sponsoring employers of contracted out occupational schemes pay reduced rate National Insurance contributions.

Contracting out certificate
The certificate issued by HMRC, in respect of an occupational pension scheme which satisfies the conditions for contracting out, confirming that the employees in the employments named in the certificate are to be treated as being in contracted out employment.

Equalisation
The European Court of Justice ruling that since the Barber Judgment of 17 May 1990 men and women must have equal rights to join occupational pension schemes, occupational pensions earned from service must be equal for men and women and that normal pension ages must be the same for both sexes.

Guaranteed Minimum Pension (GMP)
The minimum pension which a salary related occupational pension scheme must provide in respect of contracted out contributions paid between April 1978 and April 1997, as a condition of contracting out.

Replaced by the Reference Scheme Test for contributions paid after 1997.

HM Revenue & Customs (HMRC)
Formed in 2005, following the merger of the Inland Revenue and HM Customs and Excise. Responsible for the tax approval of pension schemes and taxation of contributions and benefits.

Indemnity insurance
Trustee indemnity insurance covers trustees against personal liability when legal claims are made against them, either by their pension scheme or by a third party. Provided that the trustees have authority under the scheme rules, they are entitled to be insured against claims that may arise from their legitimate actions as trustees, and will be covered against liability as long as they have acted honestly and reasonably.

Independent trustee
An individual or corporate body with no direct or indirect involvement with the pension scheme, employer or member, other than performing the duties of the trustee.

Insolvency practitioner
In the United Kingdom, only an authorised or licensed insolvency practitioner may be appointed in relation to formal insolvency procedures.

Glossary continued

National Insurance Services to Pensions Industry (NISPI)
A directorate within the National Insurance Contributions Office. The National Insurance Contributions Office is part of HMRC.

NISPI deals with occupational pension schemes and appropriate personal pension schemes that are contracted out of the state additional pension.

Notification date
The day on which the Board notifies the trustees or managers of the scheme:

→ in accordance with regulation 3(3)(b), (10)(b) or (d) of the date on which the assessment period began, ie the assessment date, or
→ of the request for information.

Pensions Act 2004
The Pensions Act 2004 is an Act of Parliament to improve the running of pension schemes.

Pensions Tracing Service
A service operated by the Pensions Service allowing members of pension schemes to trace lost pension scheme benefits.

The Pensions Regulator
The UK regulator of work based pension schemes. The Pensions Act 1995 and the Pensions Act 2004 gives the Pensions Regulator a set of specific objectives:

→ to protect the benefits of members of work based pension schemes
→ to promote good administration of work based pension schemes, and
→ to reduce the risk of situations arising that may lead to claims for compensation from the PPF.

The Pensions Service
Part of the Department for Work and Pensions (DWP) which is responsible for administering and paying the state pension.

Qualifying insolvency event
A qualifying insolvency event in relation to the employer of an eligible scheme is an insolvency event of a description prescribed under section 121 of the Pensions Act 2004 that occurs on or after 6 April 2005. This is irrespective of any previous insolvency event prior to this date. Please see the PPF website for the list of qualifying insolvency events.

Section 120 notice
The statutory notice for an Insolvency Practitioner to notify the PPF that an insolvency event has occurred in relation to a company that sponsors an occupational pension scheme.

Section 143 valuation
An actuarial valuation prescribed under section 143 of the Pensions Act 2004. See assessment process section 3 for further details.

For additional information please consult the following documents, which are available on the PPF website:

Guidance for undertaking the valuation in accordance with section 143 of the Pensions Act 2004
www.pensionprotectionfund.org.uk/section_143_guidance_sep06.pdf

Top ten tips for actuaries preparing section 143 valuations
www.pensionprotectionfund.org.uk/top_10_tips_.pdf

Stakeholders
In this instance, stakeholders are individuals or organisations that have a direct interest in a scheme. In the case of an occupational pension scheme these include:

→ trustees
→ employers
→ employees
→ advisors, and
→ regulatory bodies.

Trust Deed and Rules
The Trust Deed and Rules are the documents which govern the scheme and set out how the benefits are calculated and payable.

Trust
A legal concept whereby assets are held by one or more persons (the trustees) for the benefit of others (the beneficiaries) for the purposes specified by the trust instrument. The trustees may also be beneficiaries.

Trustee Knowledge and Understanding
The Pensions Act 2004 (sections 247-249) requires trustees to have knowledge and understanding of the law relating to pensions and trusts and the principles relating to the funding of occupational schemes and the investment of scheme assets. Trustees are also required to be conversant with their own scheme's policy documents. (The Pensions Regulator has taken the phrase 'conversant with' to mean having a working knowledge of those documents such that the trustees are able to use them effectively when carrying out their duties as trustees.)

Trustee Toolkit
An online learning system developed by the Pensions Regulator to help trustees meet the requirements for trustees knowledge and understanding in relation to occupational pension schemes.

www.trusteetoolkit.com

Winding-up
The process of terminating an occupational pension scheme, usually by applying the assets to the purchase of immediate annuities and deferred annuities for the beneficiaries, or by transferring the assets and liabilities to another pension scheme, in accordance with the scheme documentation or statute (section 74 PA95).