

# GMB@WORK

GMB Pensions – deferred pay matters



## Glossary of Terms

Defined Benefit	This is a pension promise from the employer where you know the amount of pension to expect at retirement – such as Final Salary or CARE	Tax Free Lump Sum	Currently HMRC allow you take up to 25% of each of your pensions as a tax free lump sum.
Defined Contribution	In this type of pension only the contributions are defined but the outcome is not – usually you pay a % of your pensionable pay and so does your employer.	Final Salary	This is a defined benefit pension that is based on your Final Salary. In some schemes there are protections built in so that you can choose the best year of pensionable pay from last few years.
Accrual Rate	This determines how quickly you build up your defined benefit pension and is usually expressed as a fraction – 1/50 <sup>th</sup> or 1/80 <sup>th</sup> – the smaller the number the quicker you build up your pension	Career Average (CARE)	This is a defined benefit pension that is worked out using each year's salary. This means you build up blocks of pension based on your pay in in that year – these blocks are then revalued.
Revaluation	This is used to determine how previous blocks/years of your Career Average pension are increased so that the while an active member previous years keep up with inflation.	Pensionable Pay	This is the amount of your pay that is used for pension calculations. Each scheme can be slightly different so pensionable pay could include overtime in one workplace and not in another.
Actuarial Valuation	This happens every three years in defined benefit schemes to value the schemes assets and liabilities as well as the cost of building up pension in future.	Auto-Enrolment	This was brought in to attempt to give everyone the opportunity of a workplace pension. Therefore every worker who meets eligibility criteria will be auto-enrolled in to a pension. It also brought in a minimum standard that auto-enrolment pensions have to comply with.
Trustee	Trustees are separate from the employer and act in the member's interest to make sure that the rules of the scheme are adhered to.	Early Retirement Actuarial Reduction	In a defined benefit pension scheme if you retire before Normal Pension Age your pension is usually reduced by 4-6% per year to account for the pension being paid for a longer time.
Member Nominated Trustee	In defined benefit pension schemes 1/3 <sup>rd</sup> of the trustee board must be member nominated.	Future Service Contribution Rate	In a defined benefit scheme an actuary works out the cost to the employer of building up pension in future, usually expressed as a % of pensionable pay.

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Normal Pension Age	The age at which you are expected to take your pension from for most schemes this is 65 or State Pension Age – you may go before or after this time.	Inflation	This is the increase in the price of goods and services. The most common measures of inflation used in pensions are CPI (Consumer Price Index) and RPI (Retail Price Index).
Active Members	These are members of a pension scheme that are currently still building up pension, so active in the scheme.	Discount Rate	In a defined benefit pension the discount rate is used to work out how much money needs to be invested today to pay pensions in the future.
Deferred Members	These are members of a pension scheme who are not active members but haven't started claiming their pension yet – for example someone who has moved jobs.	Pension Protection Fund (PPF)	Pension Protection Fund takes on the responsibility of paying pensions if an employer goes bust and can't sustain its pension. The pension paid for most of those not already in receipt of a pension is 90% of what they were expecting.
Pensioner Members	These are members of a pension scheme who are claiming their pension.	Life Expectancy/Longevity	This is how long scheme members are expected to live in retirement.
Annual Management Charge	This is the charge levied on defined contribution pension schemes members – there is a current cap of 0.75% for active members in the default fund.	Drawdown	This is a product for taking the money from your defined contribution pension. You can decide the size and frequency of money that you wish to drawdown from your account.
Assets	This is what the pension scheme owns or what your pension is invested in. These are usually equities/shares, bonds/gilts, property and/or cash	Cash Equivalent Transfer Value	This is how much your defined benefit pension is worth as a cash amount if you were to transfer it from one scheme to another.
Liabilities	In a defined benefit pension scheme this is the value of the pension promises made. This has to take in to account assumptions such as life expectancy, investment growth and inflation.	Annuity	This is a pension bought from an insurance company.
Deficit	In a defined benefit pension scheme this is the difference between the schemes assets and liabilities. It is the employer's responsibility to repair any deficit with extra payments in to the scheme.	Early Retirement	Currently the HMRC allow you take your pension from the age of 55 onwards. However, if you take your defined benefit pension early it may be reduced. The Government has discussed increasing 55 in future.

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