

The Carey Pension Scheme - Glossary of Terms

Whilst we have tried to make our literature as clear as possible, it is inevitable within the pensions industry that there is a degree of 'jargon'.

We have produced this glossary to explain some of the words or phrases that are routinely used:

A

Adviser. An FSA-regulated independent financial adviser (IFA) can be referred to more simply as an adviser. We are not an adviser and we cannot offer you advice about your pension.

Alternative investment market (AIM). AIM is a UK stockmarket mainly for smaller companies. Investing in AIM-listed shares is generally high risk. This is because you may not be able to sell large shareholdings at the price quoted on AIM. (The price may fall as buyers realise that you are selling.) Also, small companies are less likely to be able to cope with bad news like a temporary drop in sales. Because of this, the value of their shares may drop quickly.

Alternatively secured pension (ASP). This is the name given to income withdrawal after age 75. Different limits apply to income withdrawal after age 75. There are also different tax rules for death benefits after age 75.

Annual allowance. This is the maximum amount of new money eligible for tax relief in a single tax year. The annual allowance is set by HMT.

Annuity. An annuity is an income paid for the rest of your life. You can buy annuities from an insurance company. An annuity can be a fixed amount, or it can increase by a fixed amount or in line with inflation. Your husband, wife or other dependants can continue to receive the annuity after you die. The annuity may also have a guarantee period such as five or 10 years. See also income withdrawal.

B

Basic funds. These are low cost funds that might be suitable for any part of your assets that you do not plan to manage on a day-to-day basis. We cannot offer you advice on whether or not these funds are suitable for you. You need to agree your investment strategy with your adviser.

Benefits in kind. When your employer gives you something valuable (for example, a company car) you may be treated for tax purposes as if you have received cash. If this happens, the item given to you is referred to as a benefit in kind and you need to pay income tax on it. Employer contributions to a SIPP are not treated as benefits in kind.

C

Contracts for difference. These are high-risk investments. They consist of an agreement between a seller and a buyer. The seller agrees to pay the buyer the difference between the current value of an asset and its value at a future date. If the asset's value falls, the buyer pays the difference to the seller. Contracts for difference allow you to bet on movements in share prices without owning the shares themselves. Contracts for difference can sometimes be suitable investments for SIPP's for investors who are able to take high risks

Contracted out benefits. If you're employed, you can normally contract out of the State Second Pension (and previously the State Earnings Related Pension Scheme, or SERPS). This means that you give up your right to benefit from State Second Pension (SERPS) for the period you are contracted out. As a result, your State benefit will be reduced for the period that you are contracted out. Depending on the type of private pension scheme used to contract out, you and your employer would either have paid lower National Insurance contributions or the Government paid a rebate (from your National Insurance contributions) to the scheme used for contracting-out. Either way, certain benefits ("contracted out" benefits) have to be provided instead from the scheme used for contracting-out, with restrictions on when and how these benefits can be taken. If earned in, or transferred to a SIPP a personal pension scheme or any scheme contracted-out on a money purchase basis, contracted out benefits are also referred to as **Protected Rights**

D

Dependant. A person who was married to, or a civil partner of, the member at the date of the member's death is a dependant of the member. This also includes children under the age of 23 and individuals financially dependent on the member (an example could be someone who is mentally or physically impaired).

E

Enhanced Protection. This is where you may have applied to HMRC to 'protect' you accumulated pension benefits from tax charges incurred by exceeding the lifetime allowance. You may have this protection where you were near to or had exceeded the lifetime allowance at April 2006 – any protection had to be applied for within three years of the rule changes introduced in April 2006 so protection can no longer be applied for. Enhanced protection is lost if any subsequent contributions are made to any pension arrangements.

F

Fund supermarket. This is an online shop where you can buy and sell investments including funds, unit trusts and OEICs.

Futures. These are contracts under which the seller must sell, and the buyer must buy, an investment at a fixed price at a fixed future date. Futures carry a high risk since the market price in the future may be very different to the fixed price under the contract. Futures can produce very high profits or losses. As a simple example, I pay you £1,000 to buy your house for £100,000 in a year's time. (Under a futures contract, I have to buy it then, and you have to sell.) If your house is worth £150,000 by then, my £1,000 has become worth £50,000. If your house is worth £80,000 by then, my £1,000 has turned into a loss of £20,000. Futures are not for the faint-hearted!

G

GAD. The Government Actuary's Department. This is the department that set the rates on which income withdrawal maximum and minimum limits are based.

H

Her Majesty's Revenue & Customs (HMRC). HMRC is a government department, that implements the tax benefits and restrictions on behalf of the Government, for all pension schemes, their website is www.hmrc.gov.uk

Her Majesty's Treasury (HMT). HMT is a government department. It implements the level of annual allowance.

Hedge Funds. These are private investment firms who usually invest in high-risk investments. There are usually fewer than 100 individual investors in a hedge fund. This allows the fund to avoid many of the regulations that apply to other pooled investment schemes (for example, OEICs)

I

Illiquid assets. These are assets that can be difficult or slow to convert to cash. Property is a good example of an illiquid asset. Unquoted shares can also be illiquid because there may be only a small number of possible buyers.

Income withdrawal. This means using some of your SIPP to provide an income while leaving the rest of your fund untouched. The amount you can withdraw will fall within maximum and minimum limits. These limits are different depending on whether you are aged under 75 or 75 and over. See also alternatively secured pension.

In specie contribution. This is a way of moving existing assets into a SIPP without selling the assets. The advantage of an in specie contribution is that it avoids the costs associated with selling an asset. After the in specie contribution, the asset can stay in the SIPP. The contribution is treated the same way as a normal contribution in that tax relief may apply although the process is slightly more involved and certain HMRC conditions must be met. Please speak with Carey Pensions if you are contemplating making an in specie contribution.

Investment return. The difference between the money that you originally invested and the total amount that you have received from that investment at the time when you cash it in. Investment returns can either be positive or negative (in other words, a profit or a loss).

Investment trust. An investment trust is a form of pooled investment which has a limited number of shares. Investment trusts may specialise in particular types of investment (for example, UK shares).

L

Lifetime allowance. (LTA). Pension taxation rules effective from 6 April 2006 set a lifetime allowance: the total value of retirement benefits that can be taken before a special tax charge is applied. If your benefits exceed the LTA, the amount above it could be taxed at up to 55%. The standard LTA for the 2009/2010 tax year is £1.75 million. However, certain rules allow "protection" against the Lifetime Allowance, for example if

you had already earned more than the LTA by 5 April 2006. If you think that your pension savings could be affected by the LTA, you should speak to your financial adviser.

Lifetime annuity. An annuity contract purchased under a **money purchase arrangement** from an **insurance company** of the member's choosing that provides the member with an income for life, and which meets the conditions imposed through paragraph 3, Schedule 28 to the Finance Act 2004.

O

Open-ended investment company (OEIC). An OEIC is a form of pooled investment, similar to an investment trust. OEICs are companies that issue shares on the London Stock Exchange. They then use the money raised from shareholders to invest in other companies. If an OEIC does well, it can issue more shares. This is why OEICs are referred to as being open-ended.

Options. These are similar to futures. The difference is that an options contract creates a right to buy or sell, rather than making it compulsory.

P

Pension input periods. These are part of the technical method used to limit contributions to a SIPP.

Protected Rights. Benefits built up in a scheme which is, or was, contracted-out of the State Second Pension or, its predecessor, the State Earnings Related Pension Scheme can be transferred into a suitable scheme where they become known as Protected Rights. The term 'protected' does not mean that the funds are protected from investment risk. Instead, it means that, if you are married when you retire or die, the type of pension that must be purchased must include certain spouse's benefits and must include certain guarantees on death. This is not a feature of non-Protected Rights funds. With effect from 1 October 2008 legislation allows Protected Rights to be held under any SIPP provided that the SIPP has the relevant authorisation. The Carey Pension Scheme is authorised to hold Protected Rights and Carey Pensions UK LLP are happy to accept transfers of existing Protected Rights benefits into the Carey Pension Scheme products.

Q

Quoted shares. These are shares in a limited company where there is a share price published on a recognised stock exchange.

R

Relevant UK Individual. An individual is a relevant UK individual for a tax year if:
the individual has relevant United Kingdom (UK) earnings chargeable to income tax for that year,
the individual is resident in the UK at some time during that year,
the individual was resident in the UK both at some time during the five tax years immediately before that year and when the individual became a member of the pension scheme, or
the individual, or the individual's spouse, has for the tax year general earnings from overseas Crown employment subject to UK tax.

S

Self invested personal pension. See SIPP.

Shares. If you have a share in a company, it means you receive dividends (part of the profits paid to shareholders) from the company and a portion of any proceeds if the company is sold. You can buy and sell quoted shares on a recognised stock exchange. Unquoted shares are owned by a limited number of people and you are only likely to be able to buy and sell with those people. Shares are more risky in the short-term than some other assets because you only receive whatever is left from a company after it has paid its debts and met other commitments (for example, salaries). If a company does well, its shares can shoot up in value. If a company does badly, its shares can become worthless.

SIPP. A SIPP is a form of personal pension. SIPPs can include a very wide range of investments, can accept transfers including in specie contributions, and can be used for income withdrawal. Some SIPPs are fully flexible pension arrangements, while other SIPPs are not so flexible. It is important to choose a SIPP that meets your needs.

Scheme administrator. The person(s) appointed in accordance with the **pension scheme** rules to be responsible for the discharge of the functions conferred or imposed on the scheme administrator of the pension scheme by and under Part 4 of Finance Act 2004. This person must be resident in an **EU member state** or in Norway, Liechtenstein or Iceland (EEA states which are not EU states). The person must have made the declarations to HMRC required by section 270(3) Finance Act 2004

Special Allowance – as announced in the 2009 Budget, unless you have been making regular contributions previously, where you earn £150,000 or more, any pension contributions you make in excess of £20,000 will have the tax relief gradually reduced, on a tapered basis, from higher rate relief to basic tax relief.

T

Traded endowment policies. Endowment policies which have been sold to and traded by regulated brokers.

Transitional arrangements. These are special rules that apply to people who already had large pension funds on 5 April 2006. Transitional arrangements may reduce or remove the extra tax charge for large funds. You have to register with HMRC to benefit from transitional arrangements.

Trust. A trust is a set of assets and it is governed by rules set out in a document called a trust deed. Trustees make sure that the trust is run in line with those rules.

Trustee. A trustee is an individual or a company with responsibilities to make sure that a trust is run in line with its rules. Our SIPP is governed by a trust. Carey Pension Trustees Ltd is the trustee for the trust.

U

UK relevant earnings. This is an earnings limit used to set the maximum contribution that you can make and get tax relief for. (Your employer may be able to make a larger contribution than this.) UK relevant earnings are broadly the same as your taxed earnings, but they do not include dividends or bank interest.

Unquoted shares. These are shares that do not have a price quoted on a recognised stock exchange. They are not usually suitable investments for SIPPs. They are often held by only a few individuals (for example, the founders of a company).

Unsecured pension (USP). Payment of income withdrawals direct from a **money purchase arrangement**, or income paid from a **short-term annuity** contract purchased from such an **arrangement**, to the member of the **arrangement** (who is aged under 75) and that meet the conditions laid down in paragraph 6 and 8 to 10 of Schedule 28 to the Finance Act 2004.

V

Venture capital trust (VCT). A VCT is a form of pooled investment specialising in companies that have recently been set up ('start-up' companies).