

## ANNEX 1 – GLOSSARY OF TERMS

To assist understanding, a full glossary of terms is provided below. It explains certain terms and references used throughout the consultation paper and it is hoped that the clarifications are useful for the purposes of considering this consultation document:

**Abatement (abated):** A provision in the current scheme where a member's age or premature retirement pension is abated (reduced or stopped) in a tax year if the re-employment earnings exceed a certain limit. New 2015 scheme pension is not abated but will be taken into account in the abatement calculation for the current scheme.

**Accrual rate:** The rate, as a proportion of pensionable earnings, at which pension builds up for each year of membership. The accrual rate in the new 2015 scheme is 1/43.2 of pensionable earnings for each scheme year.

**Accrued pension:** The amount of pension built up in the final salary or career average scheme up to the current date. In the new 2015 scheme, this takes account of the pension earned in all scheme years to date, together with the index-linking that has been applied to date.

**Active scheme members:** Members paying or due to pay ongoing contributions and accruing benefits in the scheme. For the purposes of index-linking, a member may be treated as having remained active if they return to pensionable service following a break of five years or less, and providing they have not drawn the benefits already accrued in full. For the purposes of protection and tapered protection, a member was an active scheme member on 1 April 2012 provided they were either: paying contributions and accruing benefits at that point; or had done so previously, had not drawn benefits in full, and return to paying contributions and accruing benefits within five years or less of having previously done so.

**Actuarial adjustment:** The adjustment applied to a member's accrued pension to take account of the fact that it is being paid early, or in some cases late. The adjustment is made using factors, determined by the scheme actuary, which are calculated in a way that aims to reflect fairly the fact that benefits are expected to be in payment for a longer, or a shorter, period.

**Actuarially adjusted benefit:** A pension which is adjusted by an appropriate factor, where a scheme member has taken benefits before, or after, Normal Pension Age. For Normal Pension Age 60 members, there is no actuarial increase for late payment. For Normal Pension Age 65 members they receive an actuarial increase provided they are in service beyond their Normal Pension Age, and this provision is being carried forward into the new 2015 scheme.

**Additional pension:** Amounts of extra pension which can be purchased by monthly contribution or by lump sum. Employers can purchase on behalf of a member, but must pay by lump sum.

**Benefit crystallisation event:** Broadly, something which triggers the payment of pension benefits. As the tax legislation permits an individual to receive a pension

whilst continuing to work for the same employer, a term has to be invented as “retirement” is not necessarily applicable.

**Career average scheme / Career average benefit:** A defined benefit scheme that gives scheme members a pension based on a proportion of the salary earned in each scheme year. Amounts of pension earned in previous years have index-linking applied in order to maintain their value.

**Commutation / Commutation rate:** Commutation is where a member exchanges an amount of annual pension in return for a retirement lump sum. The rate at which pension is given up for a higher retirement lump sum is known as the commutation rate. In the PCSPS(NI), giving up £1 of annual pension provides £12 of retirement lump sum.

**Consumer Prices Index (CPI):** An index of inflation published by the Office for National Statistics. This is the current basis for determining cost of living increases for public sector pensions. The index used could change in the future.

**Current schemes:** The existing final salary schemes: Classic, Classic Plus or Premium, where benefits are calculated on the basis of salary at retirement, length of service. Members of these final salary schemes have a Normal Pensions Age of 60 with 80ths accrual, 60ths accrual a combination of both (depending on the scheme). Nuvos scheme benefits are based on your pensionable earnings during your career with a Normal Pension Age of 65.

**Deferred scheme members:** A member who was previously an active member, but has now left pensionable service and not yet taken all pension benefits from the scheme.

**Defined benefit pension scheme:** A pension scheme where the pension is related to the members’ salary or some other value fixed in advance. Final salary and career average are typical examples of such a scheme.

**Discretionary compensation:** A payment granted by employers in addition to premature retirement at the discretion of employers.

**Excluded employment:** A period which would be pensionable service, but for the fact that the member has opted out or has remained in a non-pensionable post which commenced before January 2007.

**Final salary scheme:** A defined benefit scheme that gives members a pension based on their final salary, the accrual rate and the period of service.

**Full protection:** Scheme members who, on 1 April 2012, have ten years or less to their Normal Pension Age, will continue to accrue benefits in the current scheme, provided there is no break in service of more than five years.

**Index-linking addition:** The amount of revaluation added to a scheme member's accrued pension at the beginning of each scheme year.

***In-service index-linking:*** The rate at which amounts of career average benefits are revalued while the scheme member remains in pensionable service as an active member of the PCSPS(NI).

N.B. Where a member returns to pensionable service following a break of less than five years, this rate will apply to the member's benefits earned up to the point of the break, provided the member has not drawn them in full.

***Mandatory compensation:*** A compensation payment, in recognition of loss of office, that is granted by employers where a member has been awarded voluntary exit, voluntary redundancy or compulsory redundancy.

***Normal Pension Age (NPA):*** The age at which benefits would come into payment in full, i.e. without actuarial adjustment. Normal Pension Age is linked to State Pension Age in the new 2015 scheme. Normal Pension Age in the current scheme is 60 for members of Classic, Classic Plus and Premium arrangements and 65 for members of the Nuvos arrangement.

***Out-of-service index linking:*** Indexation of benefits for deferred members; this is currently linked to CPI. Where a member has a break in pensionable service of more than five years, this is the rate that will always apply to the member's career average pension earned up to the point of the break.

***Pensionable earnings:*** Pensionable earnings are the earnings against which the scheme member and the employer will pay contributions and is the salary used to calculate the pension earned in any given year. For those in multiple employments, including those working more than full-time, the pensionable earnings from all employments can be taken into account in determining the members' benefits, subject to contributions being paid in respect of them.

***Pensionable service:*** A period where the scheme member is an active member.

***Pensioner:*** Members who are in receipt of a retirement pension. In addition, this will also include pensions payable to surviving adults and other dependants entitled to benefits in respect of deceased former members of the scheme.

***Phased retirement:*** Scheme flexibility whereby scheme members can, with their employers' co-operation, manage their transition to retirement. This provision allows members to access some of their benefits, subject to certain conditions, whilst they carry on working on a part-time basis or in a role of lesser responsibility.

***Re-employment:*** Where a member draws their full accrued benefits from the PCSPS(NI) and then either returns to pensionable service and accrues further separate benefits or enters excluded employment (e.g. employment that is covered by the PCSPS(NI) but the member has elected to opt out of scheme membership).

***Reformed scheme:*** The new 2015 arrangements for the PCSPS(NI) whereby benefits will be determined on a career average basis, i.e. a percentage of the salary earned in each scheme year.

**Salary:** See pensionable earnings.

**Scheme member:** A person who has contributed to the scheme and is an active member, deferred member or pensioner.

**Scheme year:** The period 1 April to 31 March.

**State Pension Age (SPA):** The age at which the State Pension would normally become payable.

**Tapered protection:** Active scheme members, who, on 1 April 2012, were between 10 years and 13.5 years of their Normal pension Age will remain in the current scheme until a specified date, provided they have continuous service. A break of five years or less is to be disregarded in determining whether service is continuous.

**Transition date:** The date on which a scheme member with service in the current scheme joins the new 2015 scheme.

**Transitional scheme member:** A scheme member with pensionable service in the current scheme and the new 2015 scheme and is entitled to benefits in both.

**Treasury Order:** A direction from HM Treasury confirming the amount of indexation to be applied to in-service career average benefits at the beginning of each scheme year. Similar directions will apply to the PCSPS(NI) and will be issued by the Department of Finance and Personnel. This reflects provisions in the Public Service Pensions Act (Northern Ireland) 2014.

**Valuation:** A report, carried out by the scheme actuary, of the financial position of a defined benefit pension scheme, which informs the contribution rates needed going forward.