

Article

# Background information on the Occupational Pension Schemes Survey (OPSS) statistical bulletin

List of pension definitions and commonly used terms referred to within the annual OPSS statistical bulletin

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# 1 . Introduction

Before reading the Occupational Pension Schemes Survey (OPSS) publication we recommend that you find out more about the pension schemes covered in the release by studying the following definitions.

## 2 . Definitions

### **Annuity**

A financial instrument provided by an insurance company that pays a guaranteed annual income to the holder, typically until death.

### **Career average scheme**

Career average revalued earnings (CARE) or “career average” schemes are a form of defined benefit scheme that use average earnings over the whole career rather than final earnings to calculate the pension. Pension entitlements earned each year are revalued (increased) during the member’s working life in line with prices or earnings.

### **Contracting out**

Contracting out: This refers to a statutory arrangement under which pension schemes that meet certain conditions may contract out of the State Second Pension (S2P), formerly the State Earnings-Related Pension Scheme (SERPS). The members’ and National Insurance contributions are reduced or partially rebated. Members of a contracted out pension scheme obtain rights in the pension scheme in place of rights to an additional state pension. From April 2012, the option to contract out only applied to defined benefit (DB) schemes. Following the introduction of the [new state pension](#) (for those reaching state pension age on or after 6 April 2016), contracting out for DB schemes has now also ended.

### **Defined benefit (DB)**

A pension in which the rules of the scheme specify the rate of benefits to be paid. Examples include “final salary” and “career average” schemes. In a final salary scheme, benefits are based on the number of years of pensionable service, the accrual rate, and the salary in the final year or years prior to retirement.

### **Defined contribution (DC)**

A pension in which the benefits are determined by the contributions paid, the investment return on those contributions (less charges) and the type of retirement income product purchased upon retirement. It is also known as a money purchase pension.

### **Dependant**

A person who depends financially on the pension scheme member, or did so at the time of the member’s death or retirement.

## **Group personal pension**

An arrangement facilitated by an employer or group of employers for their employees to participate in a personal pension on a group basis. This is a collecting arrangement only; the contract is between the individual and the pension provider, normally an insurance company.

## **Membership types**

A member is a person who has been admitted to membership of a pension scheme and is entitled to benefits under the scheme whether now or in the future.

Active members are current employees who would normally contribute to the pension scheme (or have contributions made on their behalf).

Pensioner members are members who are receiving pension payments from the scheme, their dependants and pension credit members (former spouses who have gained rights as a result of a pension credit following pension sharing on divorce). In some cases pensioner members may be in receipt of a pension from the scheme but still be working for the employer.

Deferred members (those with preserved pension entitlements) are former employees who have accrued rights or assets in the scheme that will come into payment at normal pension age but who are no longer actively contributing (or having contributions paid on their behalf) into the scheme. Deferred members also include dependants, pension credit members and those still working for the employer.

Individuals may have more than one of the previously mentioned types of membership. For instance, they may be a member of their current employer's pension scheme as well as having preserved entitlements in a previous employer's scheme. Hence, all estimates of membership in the Occupational Pension Schemes Survey (OPSS) statistical bulletin are not counts of individuals.

## **Occupational pension scheme**

An arrangement (other than accident or permanent health insurance) organised by an employer (or on behalf of a group of employers) to provide benefits for employees on their retirement and for their dependants on their death.

In the private sector, occupational schemes are trust-based – they are set up as a trust with one or more trustees who have responsibilities to run the scheme according to the scheme rules and ensure members' benefits are secure. For occupational schemes in the public sector, the same role is performed, for example, in the Local Government Pension Scheme, by a pension committee. Occupational pension schemes are a form of workplace pension.

## **Pension credit member**

The former spouse of a pension scheme member who is given a credit in respect of any pension benefits arising on divorce.

## Personal pension

An arrangement where the contract to provide contributions in return for retirement benefits is between an individual and an insurance company. Such plans may be taken out by individuals on their own initiative – for example, to provide a primary source of retirement income for the self-employed, or to provide a secondary income to employees who are members of occupational schemes. Alternatively, they may be facilitated by an employer (known as group personal pensions). Personal pensions (which include stakeholder and self-invested personal pensions – see [Pension Trends glossary](#)) are a form of defined contribution pension.

## Private sector schemes

Schemes covering the part of the economy consisting of individuals, firms and other institutions. The private sector includes state-owned enterprises and other public corporations with outputs paid for by individuals directly rather than through taxation. The pension schemes of the Lloyds Banking Group, the Royal Bank of Scotland Group and HBOS plc are classified as belonging to the private sector.

## Public sector schemes

Schemes covering the part of the economy that is state-provided, including central and local government, schooling, health and social services, policing and the armed forces.

## Scheme sections

Some schemes have more than one section, offering benefits on various bases to different groups of members. For example, one group of members might be offered benefits on a defined benefit basis, while a second group might be offered benefits on a defined contribution basis. Alternatively, schemes might have different sections to offer different levels of the same type of benefit to different members or simply to account for the benefits and contributions of different groups of members separately. The OPSS provides selected schemes with forms to complete for each section separately; further information on data collection is given in the [OPSS Quality and Methodology Information](#) (QMI) report.

## Scheme status

An occupational pension scheme may be open, closed, frozen or in the process of winding up.

An open scheme admits new members.

A closed scheme does not admit new members but may continue to receive contributions from or on behalf of existing members who continue to accrue pension rights.

Frozen or “paid up” schemes continue to pay benefits to existing members but no new members are admitted and no further benefits accrue to existing members (except in defined contribution schemes where the existing pot may continue to accrue investment income). Members can make no more contributions but further employer contributions may be made (and in a defined benefit scheme, may have to be made to correct a deficit).

Winding up is where the scheme is in the process of termination, either by buying annuities for the beneficiaries or by transferring assets and liabilities to another scheme or to the Pension Protection Fund. In general there are no active members in schemes that are frozen or winding up, as members of such schemes can no longer accrue benefits.

Further definitions are available in the [Pension Trends glossary](#).

### **3 . Further enquiries**

If you have any queries on the Occupational Pension Schemes Survey (OPSS) release, please contact us via email at [opss@ons.gsi.gov.uk](mailto:opss@ons.gsi.gov.uk)