FINAL SALARY PENSIONS (FSP)

Transfer Value
The transfer value from an FSP scheme is technically called a CASH EQUIVALENT TRANSFER VALUE (CETV). It has no relationship to the values quoted for the lifetime allowance. The CETV is a value supposed to represent the value of the benefits given up. If you give up the FSP, then you get this sum instead. The sum must be invested into another pension scheme. There are different pension schemes available such as Stakeholder, Personal Pension, Self Invested Personal Pension.

AVC and FSAVC
An AVC is an additional voluntary contribution made to a pension. The FSP promises to pay a percentage of your final salary each year. The AVC is a pot of money that can be used to pay a tax free cash sum or buy an annuity. A free standing AVC is one where you make the payments into a pot of your own. You select the provider. Prudential are responsible for the vast majority of public sector AVC. However, they don't give advice. Their role is to administer the scheme.

Accrual Rate
This is the rate at which the pension builds up. Typically, in public sector you build up (accrue) 1/80th of your final salary each year as a pension You then get 3/80th of your final salary each year as a lump sum. In the private sector, the accrual is normally 1/60 th. The tax free lump sum is calculated by exchange.

Annual Allowance
All contributions to pensions attract a government contribution. Therefore, there is a maximum amount imposed by the government that limits the amount of tax relief you get. Today's limit is termed annual allowance. For a money purchase pension this is measured as the physical amount of money paid in. For a defined benefit scheme (FSP) this was 10x the increase in the pension built up in any one tax year. Now it is a factor of 16.

Money Purchase Annual Allowance
This is a further limit placed on the annual allowance. It comes into force when it is triggered.
It can be triggered by a number of events such as
• Taking income from the crystallised pot after 5 April 2015
• Taking more income then the capped drawdown limit
• Scheme pension payment made after 5 April 2015 with fewer than 12 members
Carry Forward is not allowed.

GMP
Since April 1978 FSP have been able to choose to pay part of the state pension liability (formerly SERPS and then S2P) instead of the government. There is a lot of admin involved between employer and government (NICO office)! Since April 2016 a single tier system was introduced. When someone leaves a FSP, the GMP needs to be calculated and then revalued. The revaluation can be applied using the fixed rate method, or the limited rate method. When GMP were transferred to another personal pension it was converted to Protected Rights. These have now been abolished. From 6 April 2016 HMRC will no longer track contracted out rights. From December 2018 schemes will no longer be able to query GMP amounts.

Protected Rights
These monies came from NIC paid above those paid for the basic State Pension. From 1978 FSP could contract out and take the liability of the GMP. From 1988 you could contract out privately of the state second pension (SERPS and then S2P). Those monies that went to a personal pension from contributions by you or a transfer of GMP from a FSP were called protected rights. There used to be a difference between how you could use the monies, but not any longer. Contracting out ended 6 April 2012.

Safeguarded Rights
As the result of divorce and the making of a pension sharing order. This is the name given to the contracted out rights that became part of the former partners pension credit. The government wished to ensure that the monies were used as intended. i.e. to provide an income at retirement.

Career Average Schemes
Career average revalued earnings (CARE) schemes are FSP where the benefits are based on your earnings and length of membership of your whole career rather than at your 'final salary'.

Flexi Access Drawdown
FAD is an option when you take pension benefits from a money purchase arrangement. Anyone with benefits in a FSP who wants to benefit from FAD would need to arrange a transfer out of the FSP to a personal pension.

Income Drawdown
The precursor of FAD was capped drawdown, also known as GAD. You can convert your scheme from GAD to FAD if the scheme agrees. GAD has a maximum income set by the government actuary department. FAD has no limit; you set the income limit.

Lifetime Allowance
Is a limit on the amount of pension benefit that can be drawn from pension schemes. It is currently £1.03m.

Tapered Annual Allowance
If you have an adjusted income over £150,000 and a threshold income over £110,000 then the annual allowance is reduced by £1 for every £2 they are over. The maximum reduction is £30,000. From a standard annual allowance of £40,000 then the lowest allowance is £10,000.
Adjusted income = all earnings and investment income + Employer pension contributions – taxed lump sum death benefits. Threshold income = all earnings and investment income – gross member contribution paid + employment income through salary exchange – taxed lump sum death benefits received.

Uncrystallised Funds Pension Lump Sum
Also known as UFPLS, is a way of taking all your money out of your pension pot. It depletes the fund in one go. 25% is tax free, the balance 75% is taxed as income at the point of withdrawal. This is a useful option for small pension pots – say £10,000 or less.

Bridging Pension
This is a higher level of FSP pension that may be paid between the pension scheme retirement age (say 60) and state pension age (say 67). The objective is the government ensures fairness so that when the single tier state pension becomes payable, the main pension scheme can then reduce the payment to ensure the member gets a level payment throughout.

Crystallisation
A test usually has to be carried out each time benefits are taken from a scheme to ensure the tax charge is applied if the LTA is exceeded. These events are called Benefit crystallisation events. (BCE). It is only when monies are taken out of uncrystallised funds that this measure takes place.