

*These notes refer to the Welfare Reform and Pensions Act
1999 (c.30) which received Royal Assent on 11 November 1999*

WELFARE REFORM AND PENSIONS ACT 1999

EXPLANATORY NOTES

GLOSSARY

Occupational pension scheme

A scheme organised by an employer or on behalf of a group of employers to provide pensions and/or other benefits for, or in respect of, one or more employees on leaving service or on death or retirement.

Usually there are two types of occupational pension schemes:

final salary schemes (also referred to as a salary-related scheme or defined benefit scheme). The benefits are calculated by reference to the employee's salary at or near the time of retirement or on leaving service, and the length of pensionable service.

money purchase schemes (also known as defined contribution schemes). Contributions are invested to produce a capital sum on retirement. The capital sum (less any tax-free lump sum) is used to purchase an **annuity** to provide a pension.

Occasionally there are hybrid schemes. Both types of occupational pension scheme commonly provide, in addition to other benefits, a lump sum life assurance benefit based on a multiple of the member's salary.