Pension jargon: what does it all mean?

Active member: A worker paying into the scheme

Accrual rate: In a 'defined benefit pension scheme' (see below), this measures the rate at which a member's pension builds up.

1t is usually written as a fraction or a percentage of pensionable pay (for example, 1/60th or 1.67%).

If the accrual rate is 1/60th, you will get 1/60th of your pensionable pay' (see below) for each year you contribute.

So, after 30 years you earn 30/60ths, or one half, of your pensionable salary as your pension.

Actuaries: Financial experts who calculate the cost of the pension scheme.

Additional Voluntary Contributions (AVCs): Extra contributions which occupational pension scheme members may choose to pay to get a higher pension.

Admitted bodies/admitted body status: Public service pension schemes have rules on which employers, including employers that are not part of the public sector, can join the scheme.

In the NHS Scheme, for instance, 'admitted bodies' include some voluntary-sector organisations

These employers can apply to join the NHSPS if they take over a public service, which means their employees stay in the NHSPS.

Basic state pension: The flat-rate pension, payable from the state pension age, is paid to everyone who has at least 30 years of National Insurance contributions. The full basic state pension in 2011-12 is £102.15 a week for a single person.

Career average revalued earnings (Care) pension schemes: 'Defined benefit' (see below) schemes where your 'final pensionable pay' (see below) is based on how much you earn in each year you're a member.

So if you're in a Care scheme with an accrual rate of 1/60th and pay into it for 30 years, your pension will be 1/60th of your first year's salary, plus 1/60th of your second year's salary, plus 1/60th of your third year's salary, etc, all the way up to 1/60th of your final year's salary.

Obviously, inflation means that what you earned 30 years ago will be worth very little now, so the pensionable pay for each year is increased, by an agreed amount linked to either inflation or average earnings, until you retire or leave the scheme. This is the 'revalued earnings' bit of Care.

Commutation: Where a member gives up part of their annual pension (normally up to 25%) in exchange for a lax-free lump sum when they retire.

Cost sharing: In 2007-9 it was agreed that, in future, members of all public service schemes would share any increases in the costs of the schemes.

In the NHS Pension Scheme, employers' contributions are capped at 14.2% of salary – if costs rise higher because of increased life expectancy, members' contributions will be increased.

Deferred member: A member who is no longer contributing to the pension scheme, but is due a pension when they reach normal pension age.

Defined benefit pension scheme: A scheme whose rules decide how much pension you will get. Both final-salary and career- average (Care) schemes are defined benefit schemes. (See 'accrual rate'.)

Defined contribution scheme: A pension scheme where how much you pay in each year is defined, but the pension you get at the end cannot be predicted.

Basically, someone retiring when the stock market is high, is likely to get a better pension than someone retiring when the market is low. Charges can mean for every £1 paid in, as little as 40p is available to buy a pension.

Early retirement: When a member retires and collects their pension, before the scheme's normal pension age. Taking your pension early usually involves an actuarial reduction – you will get less each year because you expect to draw your pension for longer.

Fair Deal: In 1999, the Government set up the Fair Deal on Pensions, which means private sector employers taking over public service workers have to provide a pension scheme comparable to the public service scheme those workers are forced to leave.

Workers can transfer their public service pension to the new comparable scheme at special rates.

Final pensionable pay: The pensionable pay used to calculate your pension when you retire from a defined benefit scheme.

Final salary scheme: A scheme where your pension is a proportion of your pay near to retirement. The NHS Pension Scheme is a final-salary scheme

Funded scheme: A pension scheme where contributions are put into a fund, invested and paid out as pensions and benefits as they fall due. The Local Government Pension Scheme is the only funded public service pension scheme.

Index-linked pensions: Pensions increased each year by the cost of living, usually measured by the Retail Price Index or now by the Consumer Price Index.

Investment: When the money paid into a pension scheme is used to buy shares, bonds (usually government loans at a fixed rate of interest for a fixed period) and properties to earn more for the pension fund.

Liabilities: Amounts which the pension scheme will have to pay now or in the future. The most common liability is paying a member's pension benefits.

Total liabilities: The total pension payable to every member of the scheme for as long as they live – can be scarily big, but liabilities must be related to income and the time over which they are due.

Lump sum cash payments: Members of public service pension schemes often have to take part of their pension as a tax-free lump sum at retirement.

All members can decide to exchange more pension for a one-off cash payment at retirement (see 'commutation' above), subject to certain restrictions.

Opting out: Where a member decides they don't want to join, or no longer wish to remain, in their pension scheme.

Pay as you go (PAYG) schemes: A public-sector pension scheme where benefits (pensions) are paid out of current income (contributions). There is no separate fund with money in it. These are also known as unfunded schemes.

Employer and member contributions are paid to the Treasury which pays the pensions. Although there is no dedicated fund, the members' and employers' contributions are based on what would be needed to cover benefits as they are earned.

The NHS Pension Scheme is a pay as you go scheme.

Pension fund: The money saved and turned into assets of the pension scheme.

Pensionable pay: The pay upon which your pension contributions are calculated. Final-salary schemes usually exclude overtime and one-off payments.

Preserved or frozen benefits: The benefits an occupational pension scheme member has alreay earned when they slop being an active member (for example, changing jobs) or if the scheme closes before their normal pension age.

The member will get these benefits when they retire, increased by inflation according to the scheme's rules.

Revalued earnings: In a Career average (Care) scheme, all pension earnings will be increased every year, from the year they are earned until retirement to counteract the effects of inflation. How earnings are increased (or revalued) depends on the rules of the scheme and can be some measure of earnings or inflation.

State second pension (S2P): An additional state pension on top of the basic state pension. At the moment, this is related to earnings and used to be called the State Earnings Related Pension Scheme, or SERPS. Members of the NHS Pension Scheme are unlikely to get a state second pension for the period they are members of these schemes, because they are 'contracted-out' of the state second pension.