

# Scheme Member Zone

## What is a final salary scheme?

*One of a series of Factsheets and Quicknotes in the Module:  
Types of Pension Scheme*

Information  
Education  
Communication



# Pensioner Members



## What is a final salary scheme? – Pensioner Members

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There are many types of pension scheme offered by employers for their employees. This Factsheet briefly looks at one of the most common variations that employers have run for their employees - the **final salary scheme**.

It is written for people who are **pensioner members** of a **final salary scheme**.

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### Introduction

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A final salary scheme is a type of **defined benefit scheme**.

To understand what a final salary scheme is, you ought to know the very basics about employers' pension schemes. See our Factsheets [What is a pension scheme?](#) and [Types of employer sponsored pension schemes](#). There is also a more detailed explanation in our Factsheet, [What is a defined benefit scheme?](#) which you should read in conjunction with this one.

## What is a final salary scheme?

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A final salary scheme provides YOU and your fellow members with benefits based upon 4 key elements:

- **the length of the pensionable service** you were credited with as being an active member of the scheme
- **your pensionable salary** or 'final pensionable salary'
- **the formula or rate of 'accrual'** which uses **service** and **salary** to work out your pension
- **the circumstances under which benefits were taken from the scheme** (retirement, early payment, ill-health etc).

Your pension scheme will have used a *formula* to calculate your pension benefits using these elements. The formula (and the definitions for each part of it) will be set out in the Scheme Rules.

A final salary scheme would have used your '**final pensionable earnings**' worked out over the years immediately before you ceased to be an active member of the pension scheme. Different schemes use different definitions, so it is the definition of your 'final pensionable salary' (or 'final pensionable earnings') that was important in this type of scheme.

There are many different types of final salary schemes, each having its own formula to calculate members' benefits.

### Example of a 'final salary' formula:

$$\frac{\text{length of pensionable service}}{\text{accrual rate}} \times \text{final pensionable salary}$$

A final salary scheme has special features in that the scheme *promises* to provide benefits for its members. The assets required to pay for these benefits are held in a separate pool administered by a set of Trustees. The sponsoring employer tops up these assets out of company funds and from contributions deducted from the wages of any current active members.

While this situation exists, pensioners' benefits are a *first charge* on the schemes assets. That charge would normally be deducted from the employer's monthly contributions to the scheme. Alternatively, in the event of the pensioner benefit being paid by an insurance company, the scheme will have paid an amount to the insurer to cover all future payments.



## Are my benefits secure?

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They are only as secure as the funds which have been set aside to pay for the benefits, and the employer's willingness and ability to continue to support the scheme. If the employer cannot afford to maintain the scheme, problems can arise for pensioners.

Even if your benefits had been secured by a payment to an insurance company, the Trustees can stop or reduce the payment in extreme situations.

In the event of the employer going into receivership, if the scheme does not have sufficient funds to pay all benefits it is possible that the scheme might qualify to join the Pension Protection Fund which would provide a level of 'compensation' (but might still mean a reduction in your benefits). There are some schemes that don't qualify for the [Pension Protection Fund](#), such as Public Sector schemes. For more details on these and other risks, see our Factsheet, [Security and Risk](#) and our Module, [How secure is my pension?](#)

## What rights do I have as a member to ensure the scheme is run properly?

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Any member can seek election to become a Trustee of their pension scheme, where there is a Board of Trustees. A Trustee is responsible for ensuring the scheme operates according to all the scheme rules.

If you are unhappy about any aspect of the scheme contact the Trustees and if they do not satisfy you having formally pursued the Internal Dispute Resolution Procedure, you can contact [The Pensions Ombudsman](#) or [The Pensions Regulator](#) depending on your problem. Also, see our list of [Useful Contacts](#).



## Summary & Key Points

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When making enquiries about your **pension benefit** it is very important that you make it clear that you are a **pensioner member** of the scheme rather than an **active member** or **preserved member**. Active, preserved and pensioner are different classes of membership of a pension scheme and any definitions and paragraphs contained within your Scheme Rules or scheme literature relating to any benefit may differ considerably between these categories.

For each pension benefit you need to consider the following items:

- What pension benefits are provided by your pension scheme on your death after retirement? Spouse's, civil partner's, dependents' pensions, lump sum?
- If spouse's, civil partner's pensions are payable, will these cease on remarriage?
- Keep informed. Your scheme may modify benefits and Rules. Legislation may change. Your circumstances may alter.
- Rules differ from scheme to scheme and are wide and varied in content. Don't assume that what applies to one of your pension schemes will necessarily apply to others that you may have.
- **HMRC** impose rules which **registered pension schemes** must conform to.

People seldom have identical pensions and you should avoid drawing comparisons with colleagues whose circumstances may at first appear the same but could emerge as having significant differences.

This Factsheet forms part of our Module [Types of Pension Scheme](#) and should be read alongside the other Factsheets and Quicknotes in the series.

This is not an authoritative document. Seek professional advice from an appropriately experienced and qualified adviser.

What is a final salary scheme v3.1 - Pensioner  
Last updated 12/01/2007



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