

CHANGES AND IMPROVEMENTS TO THE TEACHERS' PENSION SCHEME FROM 1 JANUARY 2007 – A DETAILED SUMMARY FROM THE NUT

1. INTRODUCTION

Set out below is a detailed summary of the package of changes and improvements to the Teachers' Pension Scheme (TPS) that have been agreed in the Teachers' Superannuation Working Party by the teachers' organisations, the Department for Education and Skills and the employers' organisations, following constructive and intensive negotiations.

Full time teachers between the ages of 18 and 70 automatically become members of the TPS if they are employed in maintained schools. Teachers working in a part-time capacity are not automatically included in the Scheme and have to make an election to join the TPS.

Teachers employed by agencies or working in independent or private schools are not covered by the TPS unless their employer has chosen to join the Scheme.

The NUT Guide ['Your Pension: Contributions and Benefits'](#) sets out current arrangements in the TPS which will apply until the changes detailed below are introduced.

2. TEACHERS CURRENTLY IN SERVICE

The changes will apply from 1 January 2007. Teachers currently in service and within the TPS have all their current pension entitlements and a normal pension age of 60 protected. They will therefore continue to be able to retire at age 60 with no reduction in their pension benefits.

3. NEW ENTRANTS UP TO 31 DECEMBER 2006

All teachers who enter pensionable service before 31 December 2006 will have the same entitlements as those currently in service.

4. NEW ENTRANTS FROM 1 JANUARY 2007

New entrants to teaching from 1 January 2007 will have a normal pension age of 65. Their pension accrual rate, however, is improved to 1/60th with the option to take 25 per cent of their pension fund as a tax-free lump sum. This will offset the effects of the higher normal pension age.

5. DEFINED BENEFITS AND FINAL SALARY PROTECTED

The TPS will continue to be a final salary scheme which provides a guaranteed index-linked pension and a tax-free lump sum. This compares favourably to the private sector where final salary schemes are rapidly disappearing. Two-thirds of such schemes in the UK are closed to new entrants. Some companies have gone so far as to close their final salary scheme to existing members. Final salary schemes have been replaced with money purchase schemes which do not provide guaranteed benefits and, in addition, private sector employees have often seen increases in their contributions.

6. CONTRIBUTION RATES

It was not possible to achieve the lifetime protection of existing members' benefits and secure the much needed improvements to the TPS within the current contribution rate of 19.5 per cent (6 per cent from teachers and 13.5 per cent from employers).

The agreement therefore requires an increase in the employee contribution rate to 6.4 per cent of salary from 1 January 2007. This rate is projected to fall in future. Your employer has agreed that their contribution to your pension should also increase at the same time to 14.1 per cent of salary.

Following the 2008 valuation of the TPS there is a cap of 14 per cent on the employers' contribution. The projections show that this should not be necessary. In addition, the operation of that cap excludes any increased costs arising from overriding legislative requirements or from any changes to the financial assumptions on which the Scheme is valued.

A teacher with a salary of £30,000 would make a net additional weekly pension contribution of £1.80 after tax relief under the agreement. A teacher with a salary of £45,000 would pay an extra £2.08 per week.

7. VALUABLE IMPROVEMENTS TO THE TEACHERS' PENSION SCHEME FOR ALL TEACHERS

A range of important improvements and protections have been agreed. They will apply to existing and future teachers and are summarised below.

8. DEPENDANTS' BENEFITS

Unmarried members of the TPS are currently able to nominate only certain financially dependant close relatives to receive pension benefits upon their death.

Financially dependent close relatives that can be nominated are: an unmarried or widowed parent; or a step parent; or an unmarried brother or sister.

The agreement provides that from 1 January 2007 benefits for dependants would be available to heterosexual and same sex partners who are not married or who have not entered into a civil partnership.

These partners' pensions will be subject to a test of financial interdependency, for example confirmation of residence in a shared household, upon the death of the member.

The accrual rate for dependants' benefits will be 1/160 of pensionable salary. This is the same accrual rate as for widows and widowers pensions.

Benefits for dependants will accrue on a prospective basis from 1 January 2007. It will be possible for members to buy-in service before 2007 to improve their dependants' benefits.

For example: A teacher aged 40 in 2007 has 18 years service in the TPS. The teacher continues to work up until 2027 when they retire at age 60. Their total service in the TPS upon retirement is 38 years.

For the purposes of dependants' benefits however, only service from 2007 would automatically be pensionable. Upon the member's death, the partner's pension would be payable at the rate of 20/160 of their pensionable salary.

The member could improve the level of dependants' benefits through buying in pre-2007 service. If the member bought in all 18 years service prior to 2007, the dependant's benefits would be paid at the rate of 38/160 of pensionable salary.

9. PENSION PROTECTION FOR SALARY REDUCTIONS

Currently, the salary which is pensionable is the highest contributable salary over a 365 day period in the last three years prior to retirement.

The agreement provides that from 1 January 2007, the pensionable salary will be the better of the average salary in the last year, or the average of the best three consecutive years in the last ten years, revalued in line with the Retail Price Index.

Extending the period over which final pensionable salary can be based will help those who suffer pay cuts in the ten years prior to retirement. Under the current arrangements their pensions would also be reduced. This change will be particularly helpful to those teachers who have lost pay in the transition from Management Allowances to Teaching and Learning Responsibility (TLR) payments. For example, in 2008 the safeguarding of MAs will end. Teachers not awarded TLRs will return to the main scale and suffer pay cuts. This change to the TPS allows those teachers retiring up until 2015 to use their higher safeguarded salaries in the period 2005-2008 for the purposes of pensionable salary. The change also protects retiring teachers against a future Government pay policy of below inflation pay increases.

The agreement helps to facilitate flexible and phased retirements from teaching. For example, existing members could decide at age 54 that they want to take on teaching posts with less responsibility until retirement at age 60. Their pensions payable at age 60 would be based on their higher salaries before they stepped down.

The DfES have provided some exemplifications of these changes to pensionable salary in their statutory consultation document which can be found at www.dfes.gov.uk/consultations/

10. PHASED AND FLEXIBLE RETIREMENT

The agreement moves the TPS away from the current 'cliff-edge' system whereby access to Scheme benefits prior to age 60 (other than on grounds of ill health or Premature Retirement Compensation) is only possible if the member retires and takes all of their pension benefits at the same time. Teachers currently taking early retirement under the Actuarially Reduced Benefits option have their entire pension benefits reduced. The lump sum is currently reduced by

approximately three per cent and annual pension by five per cent for each year before the age of 60 at which the benefits are drawn.

The agreement enables members to continue working as a teacher and accrue additional pension within the TPS while drawing down some or all of their accrued pension benefits. That portion which is taken early is still subject to actuarial reduction, but the remaining benefits when taken at 60, or later, are not reduced.

This option will be available from the age of 55 subject to the teacher reducing their pensionable salary by 25 per cent or more.

The rules governing all occupational pension schemes require employer agreement to such early retirements, but it is expected that when the details are finalised this option will be readily available.

From 2010 members of all occupational pension schemes will not be able to access pension benefits, other than on grounds of ill health, before age 55.

The DfES have provided some exemplifications of these new flexibilities and options in their statutory consultation document which can be found at www.dfes.gov.uk/consultations/

11. PART-TIME TEACHERS

The agreement provides that part-time contracts commencing from 1 January 2007 will automatically become pensionable unless the individuals concerned choose to opt out of the TPS. Currently many teachers taking part-time employment do not realise they have to opt *into* the TPS and consequently they lose service in the Scheme.

Existing part-time contracts that are not pensionable because no part-time elections have been made will remain so unless an election is made or there is a change of contract.

12. DEATH IN SERVICE BENEFITS

Teachers who die in service receive Death Grant. This is currently payable at the rate of 2 x salary. The agreement increases the rate to 3 x salary. This payment is tax-free.

13. SPOUSES' AND PARTNERS' PENSIONS

Spouses and surviving civil partners of deceased TPS members are entitled to pensions based on the pensions of their partners. These pensions cease if the individuals remarry, enter other civil partnerships or cohabit.

For all retirements from 1 January 2007, these pensions will be paid for life. In line with their longstanding policy of no retrospection for improvements to public sector pension schemes, the Government refused to make the changes retrospective.

14. ILL HEALTH RETIREMENT BENEFITS

There is no change to the eligibility criteria for ill health retirement. Such retirements will continue to be awarded on the basis that the health of applicants is such that they are more likely than not to be incapable of serving efficiently as teachers in any posts on a permanent basis.

After 1 January 2007, all teachers who apply for ill health retirement will therefore have their applications judged on exactly the same criteria as at present. The provisions have, however, been changed on a cost neutral basis to better reflect the differing levels of need.

From 1 January 2007, teachers who meet the unchanged criterion will continue to be granted ill health retirement. Teachers whose health is such that they will not be able to undertake employment except employment where the job weight is greatly below that of teaching will receive Total Incapacity Benefit (TIB). For example, a teacher going on ill health retirement and capable only of stacking shelves in a supermarket will therefore receive TIB.

Teachers who meet the criterion for ill health retirement but do not meet the TIB criterion, will receive Partial Incapacity Benefit (PIB).

Teachers who receive TIB will have their pensionable service enhanced by half their prospective service to normal pension age (60 for existing teachers and 65 for new teachers entering the TPS from 1 January 2007).

Teachers who meet the criterion for ill health retirement but not the TIB criterion will receive pensions on their accrued service with no actuarial reduction but with no enhancement of service.

A teacher aged 30 with six years service will currently receive 6 years enhancement on ill health retirement. The pension will therefore be 12/80th of pensionable salary and the tax-free lump sum will be 36/80ths. Under the new arrangements, such a teacher awarded TIB will receive 15 years enhancement to the 6 years of service thus receiving a 21/80ths pension and a 63/80ths lump sum.

A teacher aged 58 retiring on ill health will now typically receive two years enhancement. In future, in cases of TIB the enhancement will be reduced to one year and in cases of PIB there will be no enhancement of service.

The DfES has agreed to the request from the teachers' organisations for a joint review of the operation of these changes after 12 months.

Some worked examples of the changes are set out below:

Example A compares the current and proposed arrangements in the case of an existing TPS member aged 29 with 4 years reckonable service and a salary of £23,883 (M4):

Current arrangement

Total reckonable service is 4 years enhanced to 8 years.

Pension (8 years x 1/80 x £23,883) = £2,388.30

Lump sum (8 years x 3/80 x £23,883) = £7,164.90

New arrangement (Total Incapacity Benefit awarded)

Total reckonable service is 4 years which would be enhanced by 15.5 years (half prospective service) = 19.5 years

Pension (19.5 years x 1/80 x £23,883) = £5,821.48

Lump sum (19.5 years x 3/80 x £23,883) = £17,464.44

Example B compares the current and proposed arrangements in the case of an existing TPS member aged 54 with 30 years service and a salary of £35,703 (UPS3 and MA2):

Current arrangement

Total reckonable service is 30 years enhanced to 36 years.

Pension (36 years x 1/80 x £35,703) = £16,066.35

Lump sum (36 years x 3/80 x £35,703) = £48,199.05

New arrangement (Total Incapacity Benefit awarded)

Total reckonable service is 30 years which would be enhanced by 3 years (half prospective service) = 33 years

Pension (33 years x 1/80 x £35,703) = £14,727.49

Lump sum (33 years x 3/80 x £35,703) = £44,182.47

15. BUYING IN ADDITIONAL PENSION

The proportion of teachers' pensions that qualifies for tax relief is currently limited to 15 per cent of earnings. This 15 per cent comprises the 6 per cent contributions to the TPS and a balance of 9 per cent which can be used to purchase, for example, past added years within the TPS and/or AVCs and stakeholder pensions.

The agreement extends opportunities to make additional pension provision within the TPS. The facilities for Current and Past Added Years will be replaced with a facility to purchase up to £5,000 of added pension benefits. Purchasing up to the £5,000 limit would broadly equate for most teachers to buying in 10-12 years of Past Added Years.

Further discussions are to take place during the Summer Term of 2006 on the operational aspects of proposed changes to additional pension.

In addition, further contributions to other forms of pension provision outside the TPS will be allowed subject to the overriding HM Revenues and Customs limit of one year's salary or £215,000, whichever is lower.

Changes were made on 6 April 2006 to the tax regime that governs all occupational pension schemes in the UK. It was for the TPS to decide how to apply these changes. In the negotiations in the Teachers' Superannuation Working Party it was decided to apply the changes to additional pension provision on the same date as the other changes to the TPS, 1 January 2007. TPS members will therefore be able to take advantage of the tax changes in the current financial year 2006/7 which ends on 31 March 2007.

16. NEW CHOICES ON PENSION BENEFITS

Teachers presently have no choice over the division of their pension benefits. They must take pensions fixed at 1/80th of pensionable salary for every year of reckonable service, and tax-free lump sums based on 3/80ths of pensionable salary for every year of reckonable service. Such a lump sum equates to 13 per cent of total pension benefits.

From 1 January 2007 members will have the option to take up to 25 per cent of their pension funds as tax-free lump sums by surrendering £1 of annual pension for £12 of lump sum.

New entrants will also have this option but based on the 60ths accrual rate and normal pension age of 65.

Example C shows the annual pension and lump sum that a teacher retiring at 60 with 35 years service in the TPS and a pensionable salary of £38,079 would receive under the current arrangements.

Annual pension

$$(35 \text{ years} \times 1/80 \times £38,079) = £16,659.56$$

Lump sum

$$(35 \text{ years} \times 3/80 \times £38,079) = £49,978.69$$

The lump sum is worth 13 per cent of the teacher's pension fund.

Example D shows the same teacher as in Example C opting under the new arrangements to take 25 per cent of their pension fund as a tax free lump sum. This involves surrendering, £1 of annual pension for every £12 of lump sum.

To calculate the value of an individual pension the individual continuing 1/80^{ths} pension is multiplied by 20, to which is then added the 3/80^{ths} lump sum.

Thus using the figures in example C the calculations are:

$$£16,659.56 \times 20 = £333,191$$

The lump sum payable under the current arrangement (Example C) is added to this total, as below:

$$£333,191 + £49,978.69 = £383,169.69$$

The figure of £383,169.69 is the teacher's total pension pot. 25 per cent of this pot would provide a lump sum of: £95,792.42

The annual pension payable is calculated by subtracting the lump sum payable in example D from the lump sum in Example C, as below:

$$£95,792.42 - £49,978.69 = £45,813.73$$

This total is then divided by 12, as below:

$$\frac{£45,813.73}{12} = £3,817.81$$

Subtracting this total from the annual pension payable in example C provides the resultant annual pension if 25 per cent of pension fund is taken as a lump sum:

$$£16,659.56 - £3,817.81 = \text{Annual pension: } £12,841.75$$

17. MEMBERS CURRENTLY OUT OF SERVICE

All service accrued in the TPS up to 31 December 2006 will be payable in full at age 60 whatever their future career choices are.

If they wish to return to teaching and to protect a normal pension age of 60 for all future service they must return to teaching service within the TPS by 31 December 2007. If they return by that date, irrespective of how long they have been out of teaching all future service will be protected with a normal pension age of 60. Any future breaks in service, however, must not exceed 5 years.

These protections will be subject to returns to service within the TPS being for a modest minimum period, which has yet to be decided upon.

Should you require advice or guidance on any of the issues covered in this briefing you are advised to contact your NUT Regional Office or, in Wales, NUT Cymru.

The DfES separately is conducting statutory consultation on all these changes and full details can be found at www.dfes.gov.uk/consultations/