



## NEU statement re impact of pay freezes on 'best 3 in 10' average salary calculation

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The NEU has become aware of an issue with the 'best consecutive 3 in 10' average salary calculation in the TPS final salary pension scheme.

### Summary

The calculation method for the 'best consecutive three years in ten' average salary only applies revaluation if the salary rate changes. This means a pay freeze leads to no revaluation of pension and consequent losses for members.

The NEU believes that TPS scheme regulations should be changed so members get revaluation at all times. In the meantime, salaries should be increased by £1 in 2021-22 for at least one month to trigger it. The NEU has produced a joint letter with other unions which has been sent to employers to highlight the problem and the action needed.

### Background

The final salary scheme uses two methods to work out average salary and the pension calculation then uses the best of those two:

Method A: The last 365 days of salary

Method B: The average of the best 3 consecutive years from the last 10 years where the salaries are revalued to account for inflation

TPS scheme regulations (specifically Regulation 37 (9) and (10) of the Teachers' Pension Scheme Regulations 2010) mean for revaluation to be credited in Method B, the salary rate has to change. An increase in the salary rate triggers revaluation. Even a decrease in the salary rate triggers revaluation. The only circumstance which does not trigger revaluation is a salary freeze. The Department for Education accepts that this is the position.

Many years of below inflation pay rises mean that for most teachers Method B determines their pension. Non-revaluation therefore cuts the pensions members get in retirement if a period of pay freeze is part of the 'best consecutive three in ten'.

The pay freeze in 2021-22 for staff earning £24,000 or more who do not achieve pay progression could therefore have the same impact in another ten years on current staff.

### Career Average

This issue does not apply in the career average scheme. With career average, each year has built in revaluation at 1 April each year when the Treasury order is applied. Revaluation is then either at CPI (for deferred members) or CPI+1.6 per cent (for active members). All members are set to be put into career average from 1 April 2022.

However, the majority of teachers in the career average scheme also have past final salary rights. The remedy for the 'McCloud' age discrimination judgement also means teachers will have the

choice of final salary or career average accrual for the period 1 April – 31 March 2022. These final salary rights will be affected by a pay freeze.

**Next steps**

The NEU is pursuing a regulation change so that revaluation is applied under the ‘best consecutive 3 in 10’ regardless of whether a change in salary occurs. This will take time (and the Government must agree).

In the meantime, the only way to trigger revaluation during a period of pay freeze is for the salary rate to change by at least £1 for at least one month.

**NEU Employment and Bargaining Department**  
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