REP SPEAKER NOTES FOR TPS POWERPOINT

Introduction
These speaker notes are designed to accompany the Teachers' Pension Scheme 2018 Reps' Powerpoint and provide extra speaking notes to enable the presenter to answer questions which members may have. Further pensions material is available on the website at www.teachers.org.uk/pay-pensions-conditions/pensions .

Overview
There were major reforms to the Teachers' Pension Scheme (TPS) in April 2015. Most teachers were transferred from a 'final salary' to a 'career average' pension. New entrants join the career average scheme. The NUT section continues to oppose these changes because they make teachers pay more, work longer and get less in retirement.

Pre April 2015, the TPS was based on final salary (the better of salary in the last 365 days of teaching or the best three consecutive years in the last ten, revalued with inflation!).

Teachers who joined the scheme prior to 1 January 2007 had a 'normal pension age' (NPA) of 60 (the age at which they can take a pension rights in full). For teachers who joined on or after 1 January 2007 the pension age was 65. Teachers with an NPA of 60 get a pension made up of 1/80 of salary for each year of service plus 3 times this as tax free cash. Teachers with an NPA of 65 get 1/60 of salary for each year of service but no automatic tax free cash.

The key elements of the 2015 career average TPS are:

- pension based on career average salary, not final salary;
- an increase in the normal pension age, in the career average scheme the normal pension age is equal to state pension age;
- pension builds up at 1/57th of pay per year of service;
- accrued benefits for serving members of the scheme to be re-valued annually in line with CPI inflation plus 1.6 per cent (down from national average earnings);
- pensions in payment to be increased each year in line with CPI inflation;
- improved early retirement terms with pension reduction factors of 3 per cent per year for those with pension ages beyond 65 for the difference between their normal pension age and 65.

Contribution rates
Teachers now pay an average 9.6 per cent towards their pensions. The TPS has a six-tier contribution structure for both the career average and final salary sections (see table, below).

Salary	Contribution Rate
£0 - £27,047	7.4%
£27,048 - £36,410	8.6%
£36,411 - £43,171	9.6%
£43,172 - £57,216	10.2%
£57,217 - £78,022	11.3%
£78,023+	11.7%

Contributions are paid on a member's actual salary (previously contributions were calculated on the full-time equivalent salary). This is a gain for part-time employees, the majority of whom are women.

Some members are paying less compared to the eight-tier 2014-2015 structure while others will pay more. But all teachers are paying more compared to pre-April 2012 when teachers all paid contributions of 6.4 per cent.

Pension age
In the career average scheme, the normal pension age (the age at which you can get your pension rights in full) is the State pension age.

This means (based on ages as at April 2018) – people aged 40 and under have a pension age of 68, people aged 41 to 56 have a pension age of 67 and people aged 57 to 64 have a pension age of 66. Transitional protection mitigates the impact for older teachers.

The problem is that the state pension age may well rise. Under the Pensions Act 2014, there must be a review of the state pension age at least every six years. The stated aim is to keep state pension receipt to the same proportion of adult life. The first review was undertaken by Sir John Cridland, former Director—General of the CBI and was published in 2017. It recommended an acceleration in the increase to age 68, so that it affected people born from 6 April 1970 onwards (ie pushing it forward eight years). But there are no current plans to legislate in this parliament.

The NUT section believes this review mechanism will lead to further increases in the state pension age, which feeds directly through into the TPS. Younger teachers potentially face working into their 70s. The NUT section thinks teachers can't be expected to work into their late 60s or beyond.

Career Average scheme less generous
Teachers will get less in retirement as a result of the move to career average. Pensions will switch from being based on final salary to being based on average salary throughout your whole career. This will cut pensions for most teachers.

The accrual rate of 1/57 at first sight looks better than the 1/60 or 1/80 accrual rates in the final salary sections – teachers build up more pension for each year. There is however a catch. With career average schemes, each year of service has to be 'revalued' each year to retirement, otherwise early years of service would be worth virtually nothing. Each year will be revalued with Consumer Prices Index inflation + 1.6 per cent for serving teachers. This is expected to be below national average earnings increases over the long-term.

Teachers don't just lose out through career average. They also lose out because of the way pensions are increased in retirement. In April 2011, the Government changed the inflation link for pension increases from the Retail Prices Index (RPI) to the Consumer Prices Index (CPI). The Union estimates that a teacher retiring with a £10,000 pension will lose over £30,000 during the course of a 25 year retirement due to the switch.

Pension Build Up
Teachers in the career average scheme will build up pension at 1/57 of their pensionable earnings each year. So, if your pensionable earnings are £28,500, you'll build up £500 of pension for that year.

This pension is then increased each year until retirement. The annual increase for teachers who stay in teaching is Consumer Prices Index (CPI) inflation + 1.6 per cent. This is slightly less than the expected long-term growth in average earnings. Each year is essentially treated as a separate unit, and at retirement, it's all added together to form the total pension. Once the pension is in payment, it just increases annually with CPI. Like the NPA 65 final salary scheme, there is no automatic tax-free lump sum. Teachers wanting a tax-free lump sum have to convert part of their pension into cash – at the ungenerous rate of £12 of cash for each £1 of pension given up.

If a teacher leaves service before retirement and doesn't return within five years, the 'banked' pension is just increased with CPI. This means 'deferred' pensions for out of service teachers are expected to devalue quickly compared to average earnings.

When will I be switched to career average?
This depends on a teacher's age on **1 April 2012** and their final salary TPS pension age. There are three possibilities:

Within ten years of pension age
(i.e. 50 or over if your final TPS pension age was 60 or 55 or over if it was 65)

Teachers in this position stay in their current final salary scheme provided that they stay in teaching without a break of five years or more. This applies even if they work past scheme retirement age.

Teachers in this position don't have to worry about a higher scheme pension age but are paying a higher contribution rate than they paid pre-April 2012. They are still losing out.

Up to a further 3½ years away
(i.e. 46½ - 50 if your final salary TPS pension age was 60 or 51½ - 55 if it was 65)

Teachers stay in their final salary scheme after 1 April 2015 for a limited period but will be switched over in the future. The older they are, the more protection they have. The chart below has more details.

Scheme pension age 60		**Scheme pension age 65**	
Age at April 2012	Switch to new scheme	Age at April 2012	Switch to new scheme
50	Stays in FS scheme	55	Stays in FS scheme
49½	58½ (April 2021)	54½	63½ (April 2021)
49	57 (April 2020)	54	62 (April 2020)
48½	55½ (April 2019)	53½	60½ (April 2019)
48	Moved to CA April 2018	53	Moved to CA April 2018
47½	Moved to CA April 2017	52½	Moved to CA April 2017
47	Moved to CA April 2016	52	Moved to CA April 2016
46½	Moved to CA April 2015	51½	Moved to CA April 2015

Everyone else
Other teachers went into the career average scheme in April 2015 – with the pension earned from April 2015 only accessible in full at their state pension age (which could be 67, 68 or even higher in future). New joiners go straight into the career average scheme.

Interaction between final salary and career average rights
From 2015 most teachers will have a split pension record. Part of their pension will be from the new career average scheme and part will be from their final salary scheme.

The final salary pension will be based on the teacher's salary when they leave teaching (or the period leading up to it), not their salary in 2015.

Teachers will understandably want to take their final salary pension rights at their final salary normal pension age (NB – there is no enhancement to NPA 60 pension rights if teachers work beyond 60) Teachers can in theory take their final salary pension in full at their scheme pension age (either 60 or 65). This is easier said than done because they will have to end their contract to get it. Currently scheme rules allow teachers to opt out of the pension scheme to claim their pension rights but there is no guarantee that this will still be in place in 10+ years.

There is also the question of whether teachers have to take their career average pension when they take their final salary pension. If teachers take their final salary pension at or beyond their final salary scheme pension age, they can take the two parts separately.

If they take their final salary pension before their FS scheme pension age, they must take their career average pension rights as well. This would mean a large actuarial reduction in most cases.

Operation of career average scheme

In the final salary scheme, the pay teachers get in the early years of their career doesn't matter for pension purposes if they stay in teaching. Under career average, every month's pay throughout a teacher's career will decide their pension.

The growing fragmentation of the school system means a growing number of small employers, and more changes of employer for teachers over their careers. These are perfect conditions for mistakes to be made. Teachers should keep every payslip! Payslips are the main evidence members will have to challenge errors in their records. It's vital to keep payslips and other salary records (like P60s).

The TPS does not automatically send out paper benefit statements any more. Teachers are expected to register with the 'MyPensionOnline' Service. It is vital that teachers register and then use the service – we know that many don't use it even after they've registered! It's important that teachers check their pension statement and correct it if necessary. It's easier to sort problems out at the time rather than close to retirement.

Other pension cost increased

The level of employer contributions to the TPS is 16.4 per cent from September 2015 (up from 14.1 per cent).

National Insurance Contributions (NICs) have increased due to the abolition of 'contracting out'. Previously teachers 'contracted out' of the state second pension, which meant they paid a lower rate of NICs but had no right to the state second pension. The basic state pension and state second pension were merged into a new 'single tier' pension from April 2016. As there is nothing to contract out from, teachers and employers pay a higher rate of NICs.

Teachers will pay an extra 1.4 per cent on earnings between the NI 'primary threshold' and upper earnings limit (broadly £8,500 to £46,500 from April 2018). Employers pay an extra 3.4 per cent on all earnings. The increase in employer pension contributions and employer NICs added around 4.8 per cent to the salaries bill, which is having a knock-on effect on pay and jobs.

Conclusion

The NUT did not accept the 2015 pension changes and is still in dispute over pensions. We do not consider that the Government ever satisfactorily made the case for changing teachers' pensions. The cuts to the TPS were caused by the government's desire to save money rather than being connected to scheme funding.

Teachers suffered two years of pay freezes in the early 2010s and then years of pay restraint. In absolute terms, teachers have lost out due to the 3.2 per cent rise in pension contributions since April 2012. In relative terms, once the damage to pay and pensions is combined, teacher pay has fallen by over 15 per cent relative to inflation.

The increase in employer contributions and employer NICs mean an increase in costs of almost 5 per cent. This is on top of the general pressure on Government spending due to the cuts. This and other school funding cuts are causing major pressures in schools.