



Teachers' Pension Scheme Final Salary Section – A Brief Guide

April 2019

Key points

- This presentation covers members in the final salary (FS) section of the Teachers' Pension Scheme after April 2015
- Government's pension changes contained transitional protection for older teachers.
- Continued membership of FS scheme based on age and the terms of the FS section you were in prior to April 2015
- Non-qualifiers in Career Average section of Teachers' Pension Scheme

Will I stay in Final Salary Section?

- Teachers within 10 years of NPA on 1 April 2012 stay in existing FS scheme under current rules
- Table relates to normal pension age of 60 – for NPA 65 members add 5 years to ages
- Teachers up to a further 3.5 years away have tapered protection. Each year younger than full protection cut-off, they lose 2 months of protection
- Everyone else is a career average member from April 2015

FS NPA 60 Scheme Member	
Age as at April 2012	Age when moving to CA scheme
50 years	Stays in FS Scheme
49 years 6 months	58.5 (April 2021)
49 years	57 (April 2020)
48 years 6 months	55.5 (April 2019)
48 years	54 (April 2018)
47 years 6 months	52.5 (April 2017)
47 years	51 (April 2016)
46 years 6 months, 1 day	49 years 8 months (1 June 2015)
46 years 6 months	49 years 6 months (no protection)

Normal Pension Ages

Pre 1 Jan 07 members

- Normal pension age 60
- Minimum pension age 55
- Ill Health pensions not subject to minimum age requirements

Post 1 Jan 07 members

- Normal pension age 65
- Minimum pension age 55
- Ill Health pensions not subject to minimum age requirements

Pension build up – pre 1 January 07 members

- Pension is 1/80 of final pensionable salary for each year of reckonable service
- If final salary = £30,000 and 20 years' full-time membership then the pension will be:
$$£30,000 \times 20/80 = £7,500 \text{ a year}$$
- 3/80 of final salary automatically paid as tax free cash for each year of service (i.e. 3x pension)

Tax free cash example – pre 1 January 2007 members

- If final salary = £30,000 and 20 years' reckonable service then the cash sum will be:
 $£30,000 \times 60/80 = £22,500$
- The 3/80 cash makes up approx 13 per cent of the value of pension rights. Members currently in teaching can convert up to 25 per cent of pension rights into cash
- Pension converted into cash at £12 of cash for each £1 of pension given up
- In this case, maximum tax free cash available = £40,178. Pension if maximum tax free cash taken = £6,027
- Calculator on Teachers Pensions Website

Pension build up – post 1 January 2007 members

- Pension is 1/60 of final pensionable salary for each year of reckonable service
- If final salary = £30,000 and 20 years' full-time membership then the pension will be:
 $£30,000 \times 20/60 = £10,000$ a year
- No automatic tax free cash included
- Members currently in teaching can take up to 25 per cent of pension rights as cash
- Pension converted into cash at £12 of cash for each £1 of pension given up

Contribution rates (April 2019)

- Average employee contribution rate = 9.6 per cent
- Contributions based on actual salary, not FTE salary
- Employer contribution 16.4 per cent until 31 August 2019. Government plans rise to 23.6 per cent from 1 September 2019

Salary Band	Contribution rate
£0 - £27,697	7.4%
£27,698 - £37,284	8.6%
£37,285 - £44,208	9.6%
£44,209 - £58,590	10.2%
£58,591 - £79,895	11.3%
£79,896+	11.7%

Part-time employment

- Reckonable service = amount of service eligible for pension
= salary paid / FTE annual salary * 365

Example – Year 1:

Part-time earnings = £18,000

FTE annual salary = £30,000

Reckonable service = $(18/30) * 365 = 219$ days

Final salary

- Final pensionable salary is the higher of:
 - a) Average salary in the last year
 - b) The average of the best three consecutive years in the last ten (revalued in line with RPI inflation to April 2011, CPI inflation thereafter) - this protects teachers who step down late in their careers

Additional Pension

- Not possible to buy added years from 1 January 2007 (existing contracts honoured)
- Can buy up to £6,800 in additional pension in multiples of £250
- AP bought is currently indexed to CPI inflation before and after retirement
- Pay by lump sum or by monthly deductions from salary
- Cost is not a percentage of salary, but depends on your age and the amount of pension you want to buy

Actuarially Reduced Early Retirement

- Need to be 55 or over, under normal scheme pension age and have been employed on or after 30 March 2000
- 'Actuarial Reduction' means that the pension is reduced because it's expected to be paid out for a longer period
- Employers can withhold consent for maximum of six months from date you ask to leave. Or can leave service and claim pension as deferred member after six weeks
- Amount of reduction depends on years and months pension is taken before normal pension age. Separate tables for normal pension ages of 60 and 65
- Example: if normal pension age = 60, but the person retires at 55, the pension and lump sum paid is 79.6 per cent of unreduced amount
- 'Actuarial enhancement' available for post 1 January 2007 members who work beyond 65

Phased retirement

- Allows a teacher to keep working but draw part of their pension benefits
- To claim, must be 55 or over, and have service in scheme after 1 January 2007
- To exercise phased retirement, must reduce salary by at least 20 per cent for at least 12 months – can be as a result of going part time, or moving to a post with lower responsibility
- Can take up to 75 per cent of pension and keep working. Phased retirement can be exercised twice before final retirement
- Teachers taking phased retirement continue to build up service in the Teachers' Pension Scheme (unless they opt out)

III-Health Early Retirement (1)

- The applicant must be: incapacitated if, as a result of illness or injury, the applicant is unfit to be in eligible employment despite appropriate medical treatment.
- The condition is met if the person is incapacitated and likely to be incapacitated permanently.
- The applicant meets the total incapacity condition if they are incapacitated as above and their ability to carry out any work is impaired by more than 90 per cent and is likely to be impaired by more than 90 per cent permanently.
- ‘unfit to be in eligible employment’ means incapable of serving efficiently in any post for two days a week, not incapacity to do the job the member was doing previously.

III-Health Early Retirement (2)

- Two levels of award – ‘Total Incapacity Benefit’ and ‘Partial Incapacity Benefit’
- TIB gives an uplift to benefits of half prospective service to a person’s normal pension age. Pension paid without actuarial reduction
- Example: 40-year-old with 10 years’ reckonable service and a pension age of 60 would be able to retire with 20 years’ service $(10 + (20/2)) = 20$
- PIB gives no uplift in benefits – but accrued pension is received with no actuarial reduction

Premature retirement

- Premature retirement is where your employer makes you redundant or you leave in the 'efficient discharge of the employer's function'
- Minimum age for premature retirement = 55
- Premature retirement is at the discretion of the employer as the employer must pay the cost to the Teachers' Pension Scheme
- Where the employer agrees to premature retirement - pension not reduced for early payment

Death Grant

- Death grant for all members of the Teachers' Pension Scheme who die in service = three times final salary used to calculate pension
- Death grant also paid for teachers who die within a year of leaving pensionable employment on incapacity grounds who have not received ill health retirement
- Death grant goes to person or persons nominated. Important to fill out nomination form and keep it up to date
- For deaths shortly after retirement, supplementary death grant payable of difference between the pension paid up to the date of death and five times the annual rate of pension.

Dependents' Pensions

- Long-term pensions payable at $\frac{1}{160}$ of final pensionable salary for each year of survivor benefit service. Survivor benefit service enhanced by formula ($\frac{1}{2}$ prospective service to normal pension age)
- Service from 1 April 1972 (opposite-sex widow or dependent), 6 April 1988 (opposite-sex widower, registered civil partner or same-sex spouse) or 1 January 2007 (unmarried partners) automatically counts. Provisions are being revised in light of Walker vs Innospec 2017 decision. Registered civil partners and same sex spouses will have service from 1 April 1972 counted automatically
- Unmarried partners must have been in relationship for two years and be 'financially interdependent' at time of death
- Spouse, civil partner and nominated partners' pensions paid for life for retirements from 1 January 2007 (for people with service after this date) – rather than ceasing on remarriage or cohabitation
- Children's pensions also available if: child under 17; between 17 and 23 and in full-time education or training; any age if child incapacitated and dependent. Amount of pension depends on number of children and any earnings they have



Teachers' Pension Scheme

That's it!