NATIONAL UNION OF TEACHERS

your pension your say

www.teachers.org.uk

15 May 2006

Dear Colleague

Agreement has been reached in the Teachers' Superannuation Working Party (TSWP) between the representatives of the teachers' organisations, the employers of teachers and the Government's Department for Education and Skills on changes and improvements to the Teachers' Pension Scheme (TPS) to operate from 1 January 2007. These changes protect and improve your pension.

This agreement has the unanimous support of the teachers' organisations. Enclosed with this document is a joint statement from all the teachers' organisations, commending the terms of the new agreement.

The Union's main objectives have been achieved through this agreement. There are significant advantages for all teachers, including new entrants to the profession.

Existing teachers in the TPS have all their current entitlements protected and, in particular, their right to retire at age 60 with no reductions in their pension benefits. New entrants who enter employment in the TPS by 31 December 2006 have the same protection. There are other important and valuable improvements and from 1 January 2007, new entrants will have a better pension accrual rate to help offset their normal pension age of 65.

These protections and improvements have necessitated a small increase in members' contributions and a larger increase in the contributions from employers.

The NUT Executive believes that this package of improvements and protection is one that it can clearly recommend to you together with all the other teachers' organisations. We therefore ask you to say "YES" and to return the enclosed consultation form in the pre-paid envelope provided.

The outcome of the consultation will be considered at a further meeting of the Executive. I urge you strongly to follow the Executive's recommendations and vote "YES" in the consultation in order that the NUT can ratify this agreement.

With best wishes

Yours sincerely

Steve Sinnott

STEVE SINNOTT
General Secretary

YOUR PENSION – YOUR SAY

The PSF Agreement – Protecting Existing Teachers

The Union has been engaged in a major campaign to protect and improve teachers' pensions. We have worked closely with the other teachers' organisations and public sector unions.

In October 2005, agreement was reached in the Public Services Forum (PSF) between the TUC and the Government. This protected the pension arrangements of teachers in membership of the Teachers' Pension Scheme.

Teachers currently in the Scheme retained the right to retire at age 60, with no reduction in their pension entitlements.

The agreement contrasted sharply with the extent and depth of the problems of occupational pensions in the private sector. The vast majority of final salary pension schemes have been closed to new employees or closed completely. Members of closed final salary schemes are commonly facing increases in contribution of one and two per cent, or more.

For most new employees in the private sector in recent years, therefore, the only option has been money purchase pension schemes with no guarantees on pension levels.

Examples include high street banks, insurance companies, BT and many well known firms. A Normal Pension Age (NPA) of 65 is now the norm outside the public sector. The reaction in press and media to the PSF Agreement demonstrated the scale of achievement it represented.

- The protection for existing teachers was coupled with the introduction of a normal pension age of 65 for new entrants to be introduced from June 2006 or as soon as practicable thereafter.
- The two per cent savings of the costs of teachers' pensions which result from the increase in the NPA to 65 for new entrants are shared on a 50/50 basis.
- One per cent was therefore available to meet the cost of lifetime protection and improvements to the benefits of the Teachers' Pension Scheme.

For Your Consideration

Subsequent negotiations between the teachers' organisations, the DfES and the employers have led to an unanimous agreement in the Teachers' Superannuation Working Party.

The new arrangements operate from 1 January 2007. They meet all the Union's key objectives following the PSF agreement. They provide a fair balance between the interests of existing and future teachers.

All in-service teachers have their current entitlements, including a normal pension age of 60 protected. Under the newly negotiated arrangements, all new entrants who enter service within the Teachers' Pension Scheme up to 31 December 2006 will have the same entitlements and protection.

This means that new entrants taking up teaching posts in the TPS, in the autumn term of 2006, will have a normal pension age of 60.

From 1 January 2007 all new entrants will have a normal pension age of 65, but under the newly negotiated arrangements their pension accrual rate of $^1/_{60}$th per year of service would be more generous than the $^1/_{80}$th and the $^3/_{80}$th for those currently in the Scheme. They would receive the same level of pension benefits at around $62^1/_2$ that are now payable at age 60.

Why You Should Vote "YES"

Existing and future teachers would receive a package of valuable improvements to their pension scheme benefits as set out below.

- Unmarried partners would receive the same benefits as married and civil partners.
- The pensions of teachers whose pay was reduced in the ten years prior to retirement would be protected. This would benefit in particular those teachers with Management Allowances who did not secure TLR payments.

- There would be important new opportunities for phased retirement. These would allow teachers to wind down prior to retirement without the current pension penalties.
- There would be greater freedom for teachers in dividing their pensions between tax free lump sums and continuing index-linked pensions.
- A facility to purchase up to £5,000 of added pension benefits.
- There would be a death grant of three times salary.
- Spouses' and nominated partners' pensions would be paid for life for all retirements from 1 January 2007.

Currently, the tax free lump based on the $^{3}/_{80}$th calculation amounts to 13 per cent of teachers' total pension benefits. Under the new arrangements teachers would be entitled to take up to 25 per cent of benefits as tax free lump sums with lower continuing pensions.

There is no change to the eligibility criteria for ill health retirement. The provisions have, however, been changed on a cost neutral basis to reflect better the differing levels of need.

Teachers currently out of service would have all their existing pension entitlements protected and payable in full at age 60. Any future service would also be protected provided they returned to employment within the Teachers' Pension Scheme by 31 December 2007.

The protection of existing teachers' normal pension age of 60 and the improvement of the Teachers' Pension Scheme could not be met within existing contribution levels. From 1 January 2007, therefore, teachers' contributions would rise from the current 6 per cent of salary to 6.4 per cent.

The employers' contribution would rise from the current level of 13.5 per cent to 14.1 per cent.

In future, however, the cost of the Teachers' Pension Scheme is projected to fall with reduction in the contributions both of teachers and employers.

For a teacher on £30,000 per annum the additional contribution after tax relief would be £1.80 per week and for a teacher on £45,000 about £2.08.

NUT Executive Says Vote "YES"

The Executive considers the additional costs to be justified given that they improve, maintain and protect one of the best occupational pension schemes in the UK.

Alongside the other teachers' organisations, the NUT Executive believes that this package of improvement and protection is one that it can clearly recommend to you.

VOTE "YES" IN THE CONSULTATION

your pension your say

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

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

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, Department for Education and Skills and employer organisations, following constructive and intensive negotiations.

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, but their pension accrual rate 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 only able to nominate certain financially dependant close relatives to receive pension benefits upon their death.

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 partnerships.

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.

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

9. PENSION PROTECTION FOR SALARY REDUCTIONS

Currently pensionable salary 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 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, will be used.

Extending the period over which final pensionable salary can be based will help those who suffer a pay cut in the ten years prior to retirement. Under the current arrangements their pension 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 a TLR will return to the main scale and suffer a pay cut. This change to the TPS allows those teachers retiring up until 2015 to use their higher safeguarded salary 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 also helps to facilitate flexible and phased retirements from teaching. For example, an existing member could decide at age 54 they wanted to take on a teaching post with less responsibility until retirement at age 60. Their pension payable at age 60 would be based on their higher salary before they stepped down.

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 3 per cent and annual pension by 5 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.

11. PART-TIME TEACHERS

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

Existing part-time contracts that are not pensionable because no part-time election has 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 a Death Grant which 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 their partner's pension. These pensions cease, however, if the person re-marries, enters another civil partnership or cohabits.

For all retirements from 1 January 2007, these pensions will be paid for life. The Government in line with their longstanding policy of no retrospection for improvements to public sector pension schemes 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 applicant's health is such that the teacher is more likely than not incapable of serving efficiently as a teacher in any post on a permanent basis.

All teachers after 1 January 2007 who apply for ill health retirement will therefore have their application judged on exactly the same criteria as now. 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 a pension on their accrued service with no actuarial reduction, but with no enhancement of service.

A current teacher aged 30 with 6 years service will currently receive 6 years enhancement on ill health retirement. Their pension will therefore be 12/80th of their pensionable salary and their tax-free lump sum will be 36/80ths. Under the new arrangements, such a teacher awarded TIB will receive 15 years enhancement to their 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 2 years enhancement. In future, in cases of TIB the enhancement will be reduced to 1 year and in cases of PIB there will be no enhancement of service.

More detailed examples of this change are set out on the Union's website, but as will be apparent the changes help those in greatest need whose service is low and where pensionable salary is also lower.

The DfES have agreed to the trade unions request for a joint review of the operation of these changes after 12 months.

15. BUYING IN ADDITIONAL PENSION

There is currently an annual limit of 15 per cent of earnings on teachers' pension provision that qualifies for tax relief. 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 Current and Past Added Years facilities 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 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 1 years salary or £215,000, whichever is lower.

16. NEW CHOICES ON PENSION BENEFITS

At present teachers have no choice over the division of their pension benefits. They must take a pension fixed at 1/80th of pensionable salary for every year of reckonable service, and a tax-free lump sum 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 fund as a tax–free lump sum, by surrendering £1 of annual pension for £12 of lump sum.

For example, currently a teacher retiring at 60 with 35 years service in the TPS and a pensionable salary of £38,079 would receive an annual pension of £16,659.56 and a lump sum of £49,978.69. If under the new arrangements the same teacher opted instead to take 25 per cent of their pension fund as a lump sum, their annual pension would be £12,841.75 and the tax-free lump sum would be £95,792.42.

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

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 being for a modest minimum period, which has yet to be decided upon.

A more detailed version of this briefing is available on the NUT website at www.teachers.org.uk

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.

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NUT members have received the consultation form at their home addresses.