



CAREER AVERAGE SCHEME - KEY ISSUES

NUT Commentary
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Introduction

A huge shake-up in the Teachers' Pension Scheme is happening this April as the switch begins from 'final salary' to 'career average' pensions. The NUT continues to oppose these changes because they will make teachers pay more, work longer and get less in retirement. But the necessary legislative changes have been made and the reforms are happening. You need to know how the changes will affect you.

Summary of post-2015 TPS Career Average Pension

The key issues on teachers' pensions are unchanged. The Government still wants teachers to pay more – the average contribution for teachers is now 9.6 per cent – 50 per cent higher than in March 2012. The Government still wants teachers to work longer - from 2015, the "normal pension age" (when teachers can take their pension in full) will begin to rise, eventually reaching 68 or perhaps even higher. And the Government still wants teachers to get less, both when they retire, due to a move to 'career average' pensions, and during retirement, due to lower annual pension increases.

These are key points of the new career average scheme from April 2015 onwards:

- a career average basis for the scheme;
- an increase in the normal pension age (the age at which pensions can be taken in full), so that for future accrual the normal pension age would be equal to state pension age of up to 68 or even higher;
- an accrual rate of 1/57th of pay per year of service (up from 1/60);
- 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);
- accrued pension rights (built up under the pre-2015 final salary scheme) will be protected;
- transitional protection for members close to normal pension age (see below)
- pensions in payment to be increased each year in line with CPI inflation;
- slightly improved early retirement terms for those with pension ages beyond 65 who retire between 65 and that age.

The Government has made these proposals to save on costs, not to improve the terms of teachers' pensions.

Working longer

The new scheme links the TPS normal pension age (the age at which teachers can get their teachers' pension in full) to the State pension age. All pension rights accrued in future could only be taken in full at this new higher normal pension age. Retiring earlier would only be possible on a reduced pension. Subject to transitional protection arrangements (see below) this means that:

- All teachers currently aged under 37 would have to work until age 68 for a full pension.
- Anyone aged 37 to 53 would have to work to 67

- Anyone aged 54 to 57 would have to work to 66

If the State pension age rises in future, the age at which teachers can get their teachers' pension in full will rise too. The Chancellor has already signalled that this will rise to 69 for those retiring in the late 2040s.

The Pensions Act 2014 will provide for a review of the State pension age every five years. The first review would take place by May 2017. Younger teachers will not know in future precisely when they will be able to retire.

What is career average?

Career average is a way of calculating how much pension you will get. At the moment, the Teachers' Pension Scheme is based on 'final salary' – where your pension is based on your salary at or near retirement. Under career average, pension is based on your salary over the whole of your career.

The NUT's previous strike action secured improvements in this area. The Government increased the proposed pension accrual rate from an initial accrual rate of 1/65th to 1/60th and finally 1/57th of annual salary. This was, however, offset to some extent by the accompanying reduction in the revaluation rate. The amount of pension accrued each year will be revalued each year until retirement in line with Consumer Prices Index inflation + 1.6 per cent. This is expected to be below national average earnings increases.

In theory, career average can be better for the few teachers who don't get promotion during their careers, but here the Government is using career average as a way to cut pensions for most of us.

When will I be switched to career average?

This depends on your age on **1 April 2012** and your current TPS pension age. There are three possibilities:

Within ten years of your pension age

(i.e. 50 or over if your current TPS pension age is 60 or 55 or over if it is 65)

You stay in your current final salary scheme provided that you stay in teaching without a break of five years or more. This applies even if you work past scheme retirement age.

If you're in this position you don't have to worry about a higher scheme pension age but you are already paying a higher contribution rate than you paid pre-April 2012.

Up to a further 3½ years away

(i.e. 46½ - 50 if your current TPS pension age is 60 or 51½ - 55 if it is 65)

You'll stay in your current final salary scheme under current rules after 1 April 2015 for a limited period but will be switched over in the future. The older you are, the more protection you have. See the chart below for when you'll be switched.

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	54 (April 2018)	53	59 (April 2018)
47½	52½ (April 2017)	52½	57½ (April 2017)
47	51 (April 2016)	52	56 (April 2016)
46½	April 2015 (no protection)	51½	April 2015 (no protection)

Everyone else

You'll go straight into the career average scheme in April 2015 – with the pension you earn from April only accessible in full at your state pension age (which could be 67, 68 or even higher in future)

How does career average work?

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. From April 2015, overtime will be included in the definition of pensionable pay. These terms are better than the Government originally offered – as a result of NUT members' action.

This pension is then increased each year until retirement. The annual increase before you retire 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. If a teacher leaves service before retirement and doesn't return within five years, the 'banked' pension is just increased with CPI.

Each year is essentially treated as a separate unit, and at retirement, it's all added together to form your total pension. Once the pension is in payment, it just increases annually with CPI.

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

What do I have to do?

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).

Most teachers will get a statement every year showing the earnings information provided to Teachers' Pensions by your employer. Teachers registered with Teachers' Pensions' MyPensionOnline service will be informed that the relevant information is online.

It's important that you check this information and correct it if necessary. It's easier to sort problems out at the time rather than close to retirement.

What happens to my final salary pension?

If you're switched, you'll have a "split pension record". Part of your pension will be from the new career average scheme and part will be from your existing final salary scheme. Your final salary pension will be based on your salary when you leave teaching (or the period leading up to it), not your salary in 2015.

You can in theory take your final salary pension in full at your scheme pension age (either 60 or 65). But you will have to end your contract to get it.

Do I have to take both pensions at once?

If you take your final salary pension at or beyond your final salary scheme pension age, you can take the two parts separately.

If you take your final salary pension before your final salary scheme pension age, you have to take your career average pension rights as well. This would mean a large actuarial reduction in most cases.

Contribution rates from April 2015

There are also big changes in the contribution structure from April. Teachers will still pay an average 9.6 per cent towards their pensions. However the TPS will have a six-tier contribution structure for both the career average and final salary sections (see table, below).

Salary	Contribution Rate
£0 - £25,999	7.4%
£26,000 - £34,999	8.6%
£35,000 - £41,499	9.6%
£41,500 - £54,999	10.2%
£55,000 - £74,999	11.3%
£75,000+	11.7%

A key point is that from April contributions will be paid on a member's actual salary (currently contributions are calculated on the full-time equivalent salary). This is a gain for part-time employees, the majority of whom are women, and again was added to the scheme after our strike action.

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