

TPS Workshop

A Walk Through The Reformed TPS 2015



TPS 2015

- Provide an overview of the TPS 2015
- Look in more depth at some key areas
- Consider the effect on employers
- Point to next steps



TPS 2015 - The Legislation

- Public Service Pensions Act 2013
- The Teachers' Pension Scheme Regulations 2014
(Laid 7/3/14)
- The Teachers' Pensions Regulations 2010
(Laid 1/4/2010)
- Amendments To Both The Above
(Planned For 1/11/2014)
- Amendments To The Premature Retirement And
Additional Voluntary Contributions Regulations
(Planned For 1/4/15)



TPS 2015 - Overview

- Career Average Scheme with a $1/57^{\text{th}}$ accrual rate
- Revaluation using Treasury Order (CPI) plus 1.6% whilst active, Treasury Order whilst not
- Normal Pension Age (NPA) – linked to a member's State Pension Age [when retire!]
- Voluntary/premature retirement from 55 (though likely to move to 57 in 2027)
- Protection for service in the existing scheme and tapered or full protection for those within 13.5 years of NPA at April 2012



TPS 2015 - Overview

- Employer contribution 16.4% (16.48% with additional administration fee of 0.08%) and employer cost cap of 10.9%
- Tiered member contributions based around average of 9.6%
- Contribution rates assessed on actual pensionable pay (not FTE)
- Wider range of scheme flexibilities – additional pension, faster accrual, buy-out
- Still a statutory scheme, but in addition to DfE as scheme managers there will be a Pension Board and a Scheme Advisory Board



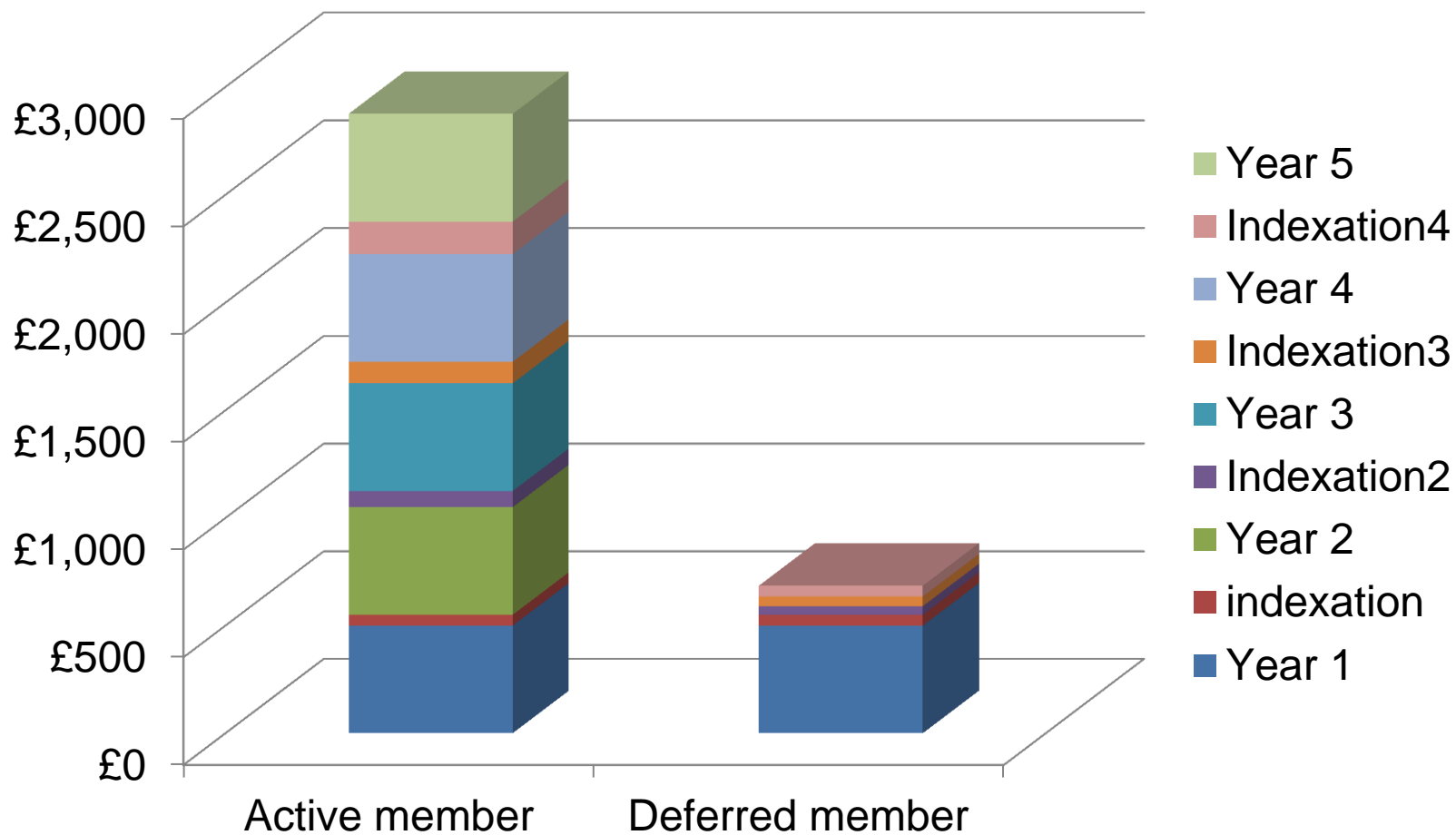
Pension Accounts

Part 4 of the TPS Regulations 2014

- Accrual rate of $1/57$ of the member's pensionable earnings
- Accrued pension "banked" in a pension account for each member
- Banked pension indexed annually
- Indexation for active member is 1.6% above rate specified in Treasury Order
- Indexation for deferred members equal to rate specified in Treasury Order
- If return to pensionable service after no more than 5 years Treasury Order plus 1.6% applies during the gap in service



Pension account - example



Retirement

Part 4 of the TPS Regulations 2014

Pre 2015

- Qualification is 2 years.
- Retirement benefits calculated as:

Service x 1/80 (or 1/60) x Final Average Salary.

Post 2015

- Qualification remains as 2 years.
- Retirement benefits calculated on a Career Average basis each year i.e.:

Salary x 1/57 = the pension for that year

That pension is then 'banked' and all the banked pensions are added together when the member takes their benefits.



Retirement -types

The basic retirement types will remain the same however there will be subtle changes to each type.

Pre 2015

- Age retirement at 60 or 65.
- AAB from age 55.
- Phased retirement from age 55 on a maximum of 2 occasions.
- Premature retirement from age 55 at employers' consent.
- Late retirement after NPA – only NPA 65 get enhancement.

Post 2015

- Age retirement from NPA - new NPA linked to SPA currently between 65-68.
- AAB (early retirement) from age 55 (likely to increase to 57) – however early retirement factors different and up to 3 years above 65 are set at 3% per annum.
- Phased – now possible on 3 occasions, only 2 before age 60.
- Premature – from age 55 (57).
- Late retirement – unchanged.
- Beneficial AAB rates (the 3%) will also apply to phased and premature.



Early leavers

Pre 2015

- If less than 2 years pensionable service then can claim a repayment of contributions less tax and NI.
- Transfer pension benefits to another approved pension scheme.
- Unlimited aggregation if service left in the TPS and index linked to protect it from increases in the cost of living.

Post 2015

- If less than 2 years pensionable service then can claim a repayment of contributions less tax and NI.
- Transfer pension benefits to another approved pension scheme. Club scheme arrangements will continue. Working with HM Treasury to ensure full guidance is made available soon.
- Unlimited aggregation if service left in the TPS, indexation is Treasury Order only while out of service.
- BUT if return is within 5 years it will be Treasury Order +1.6% for the period while out of service.
- If return is after 5 years then Treasury Order only for period while out of service and beyond.



Transfers – other points to note

Part 10 and Schedule 3 of the TPS Regulations 2014

- Club Transfers
 - Must make an election within 12 months of joining new scheme and within 5 years of leaving old scheme
 - Possible after NPA and up to 75
 - Final salary and career average benefits move separately
 - Receiving scheme pays indexation on transferred career average benefits at rate that applies to the original scheme
 - Possible to maintain protection (subject to 2 schemes test) and final salary link
- Transfer In From Teachers' Scheme in Scotland, Northern Ireland, Channel Isles, Isle of Man (CUKS/CBS)
 - For those who join after 1/4/15 will be on club terms
 - Those who joined by 31/3/15 will have a grace period (proposed as to 31/3/16) to join on existing terms (e.g. maintain NPA 60/65 etc.)



III Health

Chapter 6 of Part 5 of the TPS Regulations 2014

Criteria for ill health retirement will remain the same, except the test is against the new NPA once a member is in the reformed scheme. There are some other changes:

Pre 2015

- **Members considered in service if they apply within 6 months of leaving service.**
- **Final average salary used in the calculation of benefits and enhancement.**

Post 2015

- **In service application if apply within two years, where a members leaves teaching due to the same illness.**
- **Salary at date of leaving or when “stepped down” (with employer agreement) used in calculation of benefits.**
- **Enhancement , where applicable, is:**
 - pensionable earnings at retirement (£)
 - multiplied by
 - half prospective service to normal pension age (years and days)
 - divided by 57.



Additional Flexibilities

Schedule 2 of the TPS Regulations 2014

Pre 2015

- **Additional pension subject to certain limits (circa £6,200 currently).**

Post 2015

- **Additional Pension will continue, with existing elections honoured and new elections possible.**

New flexibilities

- **Members can elect to pay a higher contribution rate in return for a faster accrual rate for a particular year, at full member cost. 1/55, 1/50 & 1/45.**
- **Members in the new scheme with a NPA higher than 65 will have a one-off (on joining) option to pay additional contributions to reduce or, remove the early retirement reduction that applies to up to three years beyond 65 (i.e. buy-out the 3% reduction).**
- **New limit of £6,500, covering all flexibilities purchased in the career average arrangements – but can go beyond that for buy-out.**



Survivor Benefits

Part 6 of the TPS Regulations 2014

Pre 2015

- **The long-term pension is calculated at the rate of 1/160th of the average salary for each year of survivor benefits service.**
- **The rate paid for children is:**
 - half of the adult's pension if only one child, and
 - if there are two or more children an amount equal to the adult pension is divided equally between each child.
- **Enhancements based on old style ill health arrangements – i.e. on length of service.**

Post 2015

In line with current NPA 65 arrangements

- **Adults will receive 37.5% of a member's career average benefits (60/160).**
- **A child will receive 18.75% of a member's career average benefits if only one child.**
- **If there is more than one child an amount equal to the adult pension (37.5% of a member's career average benefits) is divided equally between each child.**
- **If dependent is eligible for enhancement, it will be 37.5% of half a member's potential service to NPA x final pensionable earnings/57
i.e. in line with post 2007 ill health arrangements.**



Death Grant

Chapter 3 of Part 6 of the TPS Regulations 2014

Pre 2015

- In service death grant of 3 x average salary.
- If out of service and has 2 years of pensionable service the death grant is the retirement lump sum accrued to date, or if there is no adult pension payable, the pension contributions plus interest of 3% if higher.
- Supplementary Death Grant (SDG) is payable of annual rate of pension times 5 (minus any pension already paid) if member dies within 5 years of retirement.

Post 2015

- In service death grant = 3 x final FTE salary.
- Out of service death grant = member's career average pension x 2.25, or if there is no adult pension payable the pension contributions plus interest of 3% if higher.
- SDG is payable of annual rate of pension times 5 (minus any pension already paid) if member dies within 5 years of retirement.



Protection and salary link

mainly Schedule 3 of the TPS Regulations 2014

Protection

- Members at 1 April 2012 within 10 years of NPA remain in the current scheme.
- Tapered protection for members within 13.5 years of their NPA. That means members will join the Career Average Scheme but at a later date.
- If a member has a break in pensionable service of more than 5 years covering 1 April 2012 or thereafter either do not have or lose protection.
- Possible to maintain protection if transfer to another public service pension scheme (subject to 2 schemes test) or if move to other pensionable public service and return to the original scheme without having a break of more than 5 years.

Salary Link

- **Members who have continuity of service on 1.4.15 will have their final salary benefits based on the salaries being paid prior to their retirement.**
- **If a member has a break of more than 5 years then this salary link will be broken and the final salary benefits will be based on salaries at the break.**
- **Maintain link if transfer benefits to another public service pension scheme without having a break of more than five years.**



Protection and salary link examples

These member all are potentially eligible for protection and the table shows the impact on that protection if they have a break in service.

Leaves	Returns	Effect
1.4.10	31.3.15	Fully protected in final salary scheme
1.4.10	4.4.15	No protection or salary link
1.4.11	31.3.16	Fully protected in final salary scheme
1.4.09	1.3.15	No protection but salary link
1.4.14	3.4.20	No protection or salary link
1.4.08	3.4.13	No protection but salary link



Transitional members – retirement

Schedule 3 of the TPS Regulations 2014

These are members who have a mixture of Final Salary and Career Average service. These members need to be aware of the choices open to them on when to take each type of benefit.

Age retirement

- **Conditions for taking benefits do not change, members must be out of service and have reached their NPA.**
- **Final salary at 60 or 65, Career average at SPA .**
- **If out of pensionable service plus between 60/65 and SPA can take Final Salary benefits without taking Career Average at same time. If taking Career Average at the same time then that element will be AAB.**
- **If taking Career Average benefits then Final Salary benefits have to be taken if not already in payment.**

Premature

If granted premature retirement both sets of benefits have to be taken at the same time, i.e. Final Salary and Career Average

AAB

If taking AAB both sets of benefits must be taken at the same time

Phased

If taking phased do not have to take all benefits at the same time or draw down the same percentage



Transitional members - ill health & death

mainly Schedule 3 of the TPS Regulations 2014

Ill health

- Benefits are assessed on the scheme the member is in when they make their application.
- All scheme benefits have to be taken at the same time.
- Enhancement is only applied once, not to both sets of benefits.
- Enhancement is FTE pensionable earnings at retirement times half prospective service to normal pension age divided by 57 (but provision to take account of a previous higher salary).

Death

- The death grant is based on the scheme the member is in when they die.
- Only one in service death grant is paid, i.e. not one for the final salary service and another for the career average service.
- Enhancement is only applied once, not to both sets of benefits
- Enhancement is 37.5% of the enhancement that the member would receive if retiring on ill health.



Employer contributions and the employer cost cap

Schedule 4 of the TPS Regulations 2014

- Employer contribution rate following scheme valuation is 16.4%
- Implementation of the new rate delayed till September 2015.
- Propose to start collecting the administration fee at the same time - hence likely employer contribution rate of 16.48%
- Employer cost cap following scheme valuation is 10.9%.
- In the event of a breach of the employer cost cap propose that the Scheme Advisory Board play a central part in advising the Secretary of State on appropriate scheme changes – default is to adjust the accrual rate.



Member contributions

Part 9 of the TPS Regulations 2014

2015 - indicative		Current	
Actual Pensionable Pay	Gross Rate	Full Time Equivalent Pensionable Pay	Gross Rate
		Up to £14,999	6.4%
Up to £25,999	7.4%	£15,000 to £25,999	7.2%
£26,000 to £34,999	8.6%	£26,000 to £31,999	8.3%
£35,000 to £41,499	9.6%	£32,000 to £39,999	9.5%
£41,500 to £54,999	10.2%	£40,000 to £44,999	9.9%
£55,000 to £74,999	11.3%	£45,000 to £74,999	11%
£75,000 and above	11.7%	£75,000 to £99,999	11.6%
		£100,000 and above	12.4%



Basic Monthly Salary *	Overtime Paid In Month	Back Pay Paid In Month	New Annualised Salary	New Contribution Rate	Contributable Salary For The Month
£2000 (£24000 7.4%)	£200	£0	£24000 (£2000 X 12)	7.4%	£2200 (£2000 + £200)
£2000 (£24000 7.4%)	£0	£1000 (4 months @ £250)	£27000 (£2000 + £250 X 12)	8.6%	£3000 (£2000 + £1000)
£2000 (£24000 7.4%)	£200	£1000 (4 months @ £250)	£27000 (£2000 + £250 X 12)	8.6%	£3200 (£2000 + £200 + £1000)
£4000 (£48000 10.2%)	£400	£2000 (4 months @ £500)	£54000 (£4000 + £500 X 12)	10.2%	£6400 (£4,000 + £400 + £2000)

Note * Figures in brackets indicate the original annual salary and contribution rate.



Employers – Key Requirements 2015

Identifying Member Type

- Need to know what arrangements apply to the member, final salary or career average!
- More straightforward for existing employees but for new starters you need to know their recent employment history.
- If been in another public sector scheme may still have protection!
- Members at 1 April 2012 within 10 years of NPA remain in the current scheme (Full Protection).
- Members within 13.5 years of their NPA on 1 April 2012 join the Career Average Scheme after 1 April 2015 (Tapered Protection).
- Other members move over on 1 April 2015.



Employers – Key Requirements 2015

Separate Records Per Job (Contract)

- Same as for auto enrolment.
- Opt out etc. elections only apply to the employment involved (save for buy-out – see flexibilities).
- Membership no longer restricted to one full-time equivalent.
- 2 or more jobs = employee rates (tiers) separately assessed.
- Separate cumulative pensionable pay and employee contributions per job – accuracy of pension build up dependent on correct cumulative pensionable pay.



Employers – Key Requirements 2015

Pensionable Pay

- Same definition as now except non-contractual overtime is pensionable in the career average arrangements.
- Residential emoluments can continue to be included.
- Based on pensionable pay received in the scheme year (and not due in the scheme year).
- During sickness , child related leave etc. on at least half pay pension continues to accrue on the basis of ‘normal’ pensionable pay – through an amount for ‘notional pensionable earnings’ being added to the pay actually received.



Employers – Key Requirements 2015

Employee contribution rates/tiers

- New bands with some increases/reductions – per previous table.
- Band determined on the basis of actual pay received in the month in question for that employment (i.e. monthly pay x 12).
- When on sick pay etc. employee pays contributions based on the pay received (though in line with the contribution rate that applies to the full amount of their ‘normal’ pay).
- Employer pays contributions on the amount paid to the employee.



Employers – Key Requirements 2015

Flexibilities/Buying Extra Pension

- Have to be in career average scheme to get new flexibilities.
- Election to purchase buy-out applies to all employments (this is one of the reasons why you need to know employment/pension history and about existing elections for new starters), and has to be made within six months of entering career average – it then applies from the point of entry.
- Election to buy other flexibilities (additional pension and faster accrual) applies to that individual employment.
- Faster accrual election must be made each year, additional pension election can apply to a lump sum purchase or instalments over a period of time.
- Employers will need to be able to account separately for contributions in respect of flexibilities – and record on monthly/annual return.



For more information

<https://www.teacherspensions.co.uk/reform/employers/reform-employer-hub.aspx>

