

Teachers Pension Scheme Reforms

Background

The Government asked John Hutton's Independent Public Pensions Commission to look at the cost of public service pensions and provide a report of areas for consideration to reduce costs and provide suggestions for reform. Having produced an interim report in October 2010, a further and final report was published on 11 March 2011 which set out the detailed recommendations for reform.

The Government have set out their position on the main elements for reform. The Commission has stated that it should be possible to implement changes by 2015.

What areas of The Teachers Pension Scheme are affected?

There are four key areas for reform:

1. Calculation of retirement benefits

Currently, the Teachers Pension Scheme is a Defined Benefit, Final Salary scheme. This means that the calculation of your retirement benefits is currently based on your length of service and your 'final salary'. For those currently in service 'final salary' is calculated as the best of either your salary in the 12 months before retirement or the best-averaged 3 consecutive years salary in the last 10 years.

The report argued that final salary schemes are unfair in that they give disproportionate benefits to 'high flyers' compared to 'low flyers' in the same professional groups.

The Government's intention is that a defined pension benefit scheme should be maintained, but that 'final salary' is replaced by a 'career average revalued earnings' scheme. This means that your pension would be based on your average salary over your career, such salary being indexed in line with average earnings. Depending on your earnings over your career this could mean a lower pension at retirement.

Pension benefits accrued to date are to be protected so that the link to final salary is maintained for past service. In addition for those within 10 years of normal

pension age on the 1 April 2012 there will not be any change to the normal retirement age and no change in the amount of pension payable on retirement.

2. Retirement age

The report noted that people are living longer and workers retiring at 60 today can expect to spend around 40% of their adult lives in retirement, compared to 28% in 1955.

The report recommended that retirement ages should take account of increases in life expectancy and that the normal pension age - currently 65 (or 60 for those who joined the Teachers Pension Scheme before January 2007), should therefore increase so that it is in line with the State Pension Age. The effect of this is that any pension you build up from the date that any higher pension age is implemented could only be taken in full at that age (although you might be able to take a reduced amount earlier than that if you so wished). The pension you've built up so far would still be available in full at your current normal pension age. However if your state pension age is increasing then any pension you build up from the proposed reforms would apply from the new state pension age. You will still have the option to retire from age 55 and take a reduced amount.

3. Your contributions

Hutton proposed that the most effective way for the Government to make short-term savings was to increase member contributions. Therefore, in the interim report published in October 2010 the recommendation was that member contributions should be increased, and contribution levels should be tiered to earnings to protect the low paid. Since the interim report the Government have already declared a progressive increase in employee contributions from the current 6.4% to 9.5- 9.8% to be phased in from April 2012. Details of the increased contribution rates can be found on the Teachers Pension Scheme website.

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4. Returning to work after retirement

Currently, if you return to teaching after you have retired and are drawing your teachers pension your pension could reduce or even stop - this is known as abatement. The report recommended that abatement is removed or replaced with an arrangement where your pension is initially reduced if you return to work and then increased when you retire. Discussions on this are still to take place.

What does this mean for me?

If the reforms go through then your pension benefits could cost you more, your pension benefits could be lower and the age at which you can take them could be higher. Until details are agreed it is not possible to assess the precise impact on individuals but Teachers Assurance can help you explore possible options available.

To obtain information, education and support visit our website at www.teachersassurance.co.uk or call our Customer Support Team free on 0800 731 1093.

About Teachers Assurance

We are a mutual society and have been providing financial information, education and support to teachers and their families for over 130 years. We are committed to providing up to date, expert information specific to teachers in order that you can make informed decisions for your future and every year 15,000 teachers in 3,000 schools in England and Wales turn to us for financial education, information and support direction.

If you would like further information please contact Tina Flower of Teachers Assurance on 01202 435147.