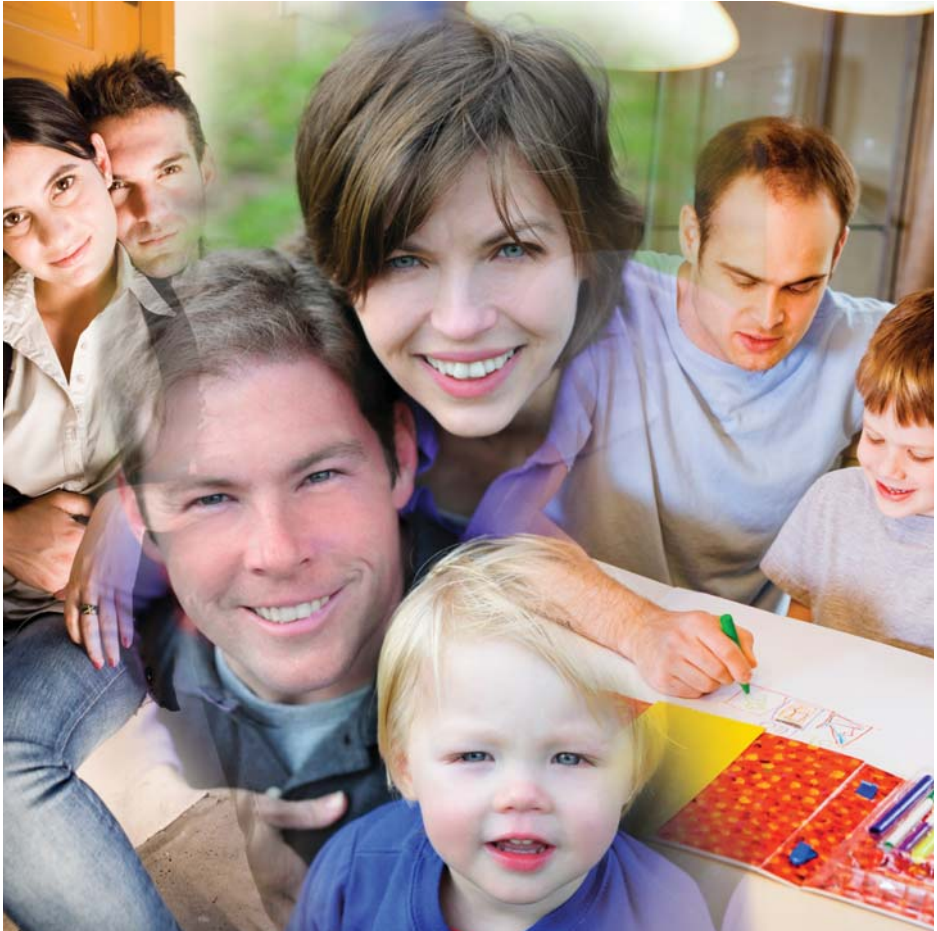


# *Financial Planning Guide*



*For teachers who are newly qualified*

First, congratulations! You've qualified. Now the fun starts...

At Teachers Assurance, we have been advising newly qualified teachers for many years and have huge respect for your chosen profession, the contribution that you make, the individual successes you achieve, the challenges you overcome and the sheer hard work that you put in.

We hope that you enjoy a long and successful career in teaching and we'd like to play our part by helping to make sure that you receive the best financial planning support along the way.

As you begin to look forward, it is our wish to help smooth the way for you to enter this new phase in your life, whatever that holds and wherever that may take you. We aim to apply the same level of professionalism, diligence and commitment in our work with you as you do in yours.

Our experience, gained over 130 years of providing financial planning support to the teaching profession, tells us that many teachers have a lot of questions about their pension scheme and its associated benefits when they start out.

This guide seeks to answer the most common of those questions, provide you with a simple explanation of what you can expect from your pension scheme and point out the shortfalls as well as the financial planning decisions you should be considering now.

Please note that this guide is aimed at teachers who joined the Teachers Pension Scheme from 1 January 2007 onwards.

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## What are the benefits of the Teachers Pension Scheme?

The Teachers Pension Scheme is known as a “final salary” scheme. This means that you contribute towards the scheme each month in return for a pension at retirement, which is based on your salary and your length of service. You will need a minimum of 2 years’ membership of the Teachers Pension Scheme to qualify for pension benefits.

- In addition to your contribution, your employer also makes a substantial contribution towards the cost of your pension benefits.
- When you retire, the Teachers Pension Scheme provides you with a guaranteed regular, taxable income for the rest of your life. This income is index-linked to protect its value against the effects of inflation.
- If you become too ill to work, you will receive sick pay for a period of time from your employer. Depending on your illness, you could receive your pension early, your benefits may be enhanced, or for severe illness your pension benefits could be converted to a lump sum.
- Should you die before retirement, the scheme will pay a lump sum and may also pay a pension to your family or dependants. Should you die after retirement, the scheme may also provide a pension to your family or dependants.
- You can increase your pension by purchasing extra pension benefits.
- You may also be able to transfer in pension credit from another scheme.

Please note that all teachers, both full and part time, are automatically members of the scheme unless they elect to opt out.

## How much pension will I get?

### Pension

Normal retirement age from the scheme is 65.

To determine your pension income, the Teachers Pension Scheme takes into account 1/60th of your Average Salary\* for every year that you have worked. The pension will be taxable, in the same way as earned income.

This can be expressed as follows:

$$\frac{\text{Number of years service}}{60} \times \text{Average Salary*} = \text{Pension per annum (before tax)}$$

\*See the following page for an explanation of Average Salary.

### Tax Free Cash Lump Sum

You may forego part of your pension in favour of a tax-free cash lump sum. You have to give up £1 of your pension for every £12 of lump sum.

The maximum lump sum that you can take is 25% of the capital value of your pension. Use the following calculation to work out the maximum. You can take a smaller lump sum if you wish.

$$\frac{\text{Pension} \times 20}{4.6667} = \text{Maximum tax free cash}$$

The following example shows how taking a lump sum affects your pension:-

## Example

A teacher joins the scheme aged 25 and retires at 65 on a final "average" salary of £33,000.

### Pension (no lump sum)

$$40/60 \times £33,000 = £22,000 \text{ p.a. (before tax)}$$

### Maximum Lump Sum (if part of pension given up)

$$\frac{£22,000 \times 20}{4.6667} = £94,285 \text{ (tax free)}$$

### Amount of pension given up

$$\frac{£94,285}{12} = £7857$$

which reduces the pension to  
£14,143 p.a (before tax)

## Average Salary

When calculating your pension, your average salary will be the greater of:-

- The average of the best 3 consecutive years' salary in the last 10 years before the date of retirement, revalued in line with the Retail Price Index each year up to April 2011 when it will be revalued in line with the Consumer Prices Index.
- The pensionable salary received in the last 12 months before retirement.

There are however restrictions in place where there have been significant increases in salary in the run up to retirement.

## How can I top these benefits up?

If you feel that your pension and lump sum will not be sufficient to meet your requirements in retirement you have a number of options:

First, you need to determine whether you require a bigger lump sum (capital) or a greater amount of income in retirement.

### If you require more income

You can buy a fixed additional amount of pension income of between £250 and £5,600 per annum from the Teachers Pension Scheme.

You can choose to pay for this additional benefit by either a lump sum or regular deduction from your salary. These deductions are made before your salary is taxed so you effectively receive tax relief on your contribution at the highest rate at which you normally pay tax.

### If you require a lump sum

There are various options open to you if you wish to invest to create a lump sum in retirement. The best option for you will depend on a number of factors including:

- Your timescale
- Your attitude to investment risk
- The amount of access to your money or flexibility you require between now and retirement
- Your tax position
- The nature of any other investments you already hold
- Whether you wish to invest a lump sum or a regular amount for capital growth



We offer a range of savings plans and lump sum investment plans that might prove suitable for you, including Unit Trusts, Individual Savings accounts (ISAs), Bonds, Guaranteed Savings Plans and Tax Free Savings Plans.

We also offer a straightforward range of fund choices, so whether you prefer to invest in a cautious, balanced, adventurous or ethical way, we have a simple solution for you.

## What happens if I wish to retire early?

You may have only just started out but if you want to retire early, the sooner you start to plan, the easier and more cost effective it should be.

You can choose to retire from age 55 onwards. Your pension will be actuarially reduced to take account of the fact that its likely to be paid for longer. The earlier you retire, the lower your pension will be.

To obtain a specific personal calculation, please telephone Teachers Pensions on **0845 6066166** or visit the website at [www.teacherspensions.co.uk/resources/calculators.htm](http://www.teacherspensions.co.uk/resources/calculators.htm) and use the online calculator.

Alternatively, if you require advice on planning for early retirement, please telephone us on Freephone **0800 731 1093** or visit our website at **[www.teachersassurance.co.uk](http://www.teachersassurance.co.uk)** using the 'Contact Us' option to request an appointment with one of our Financial Consultants.

## What happens if I cannot work due to ill health?

Take care, there are shortfalls...

If you fall sick, you will receive sick pay for a period of time. This is dependant on your length of service.

Length of service	Full pay	Half pay
Less than 4 months	25 days	Not applicable
4 months – 1 year	25 days	50 days
In 2nd year	50 days	50 days
In 3rd year	75 days	75 days
From 4th year onwards	100 days	100 days

In the event of continued ill-health, after your sick pay has ceased, you may apply to Teachers Pension for an incapacity pension. However, you are not guaranteed to be granted an incapacity pension.

You will need a minimum of 2 years' membership of the Teachers Pension Scheme to be eligible to apply for ill health benefits.

There are two types of incapacity benefit that may be granted:-

**Total incapacity** – you must be incapable of teaching or any other “gainful employment”. If granted you will receive a pension based on service to date plus half your prospective service to normal retirement age

**Partial incapacity** – you must be permanently incapable of teaching but capable of a range of other work. If granted you will receive a pension based on length of service only. There is no enhancement to normal retirement age.

As a newly qualified teacher you have little service to base either of these pensions so, at present, the amount you would get could be negligible, if it were to be paid at all. You would, however, be entitled to statutory sick pay which is less than £100 per week.

Because all sickness benefits are based on length of service, when you are younger and likely to

need your benefits most, to protect yourself and your family, they will be at their lowest.

## Example

A teacher joins the scheme aged 25 and as a result of illness is granted ill health retirement after 2 years, with a salary of £25,000:

### If granted Partial Incapacity: Pension (No lump sum)

$2/60\text{ths} \times £25,000 = £833$  a year.

### If granted Total Incapacity: Pension (No lump sum)

$2/60\text{ths} + 19/60\text{ths}$  (enhancement) =  $21/60\text{ths} \times £25,000 = £8,750$  a year.

## Example

A teacher joins the scheme aged 25 and as a result of illness is granted ill health retirement after 5 years, with a salary of £28,000:

### If granted Partial Incapacity: Pension (No lump sum)

$5/60\text{ths} \times £28,000 = £2,333$  a year.

### If granted Total Incapacity: Pension (No lump sum)

$5/60\text{ths} + 17.5/60\text{ths}$  (enhancement) =  $22.5/60\text{ths} \times £28,000 = £10,500$  a year.

## Example

A teacher joins the scheme aged 25 and as a result of illness is granted ill health retirement after 10 years, with a salary of £30,000

### If granted Partial Incapacity: Pension (No lump sum)

$10/60\text{ths} \times £30,000 = £5,000$  a year.

### If granted Total Incapacity: Pension (No lump sum)

$10/60\text{ths} + 15/60\text{ths}$  (enhancement) =  $25/60\text{ths} \times £30,000 = £12,500$  a year.

## What should I do to protect myself and my family?

Newly qualified teachers need to consider arranging some form of income protection, in the event of ill health. There are two scenarios to consider:

### **Long term illness, which prevents you from working**

The most common causes of long-term illness in the teaching profession, as you might expect, are stress and back problems. Neither of these conditions would automatically qualify you for an incapacity pension.

To protect your ability to pay the monthly bills, should you be too sick to work, you should consider purchasing Income Protection, sometimes referred to as Permanent Health Insurance.

This is an insurance policy that pays you a regular, tax-free income until you are fit enough to return to work, or until your chosen retirement age or earlier death.

We can arrange this type of cover for you, to dovetail with your existing sick pay arrangements.

### **Serious illness, which may affect your lifestyle**

The most common serious illnesses are cancer, heart attack and stroke. Medical advancement means that, thankfully, in many cases people now survive these illnesses but many sufferers are forced to re-evaluate their life choices as a result.

Often it is possible to work whilst recovering or receiving treatment, which means that sick pay and income protection plans would not kick in.

Financial freedom in such situations removes added stress that you could do without and Critical Illness Protection can be a worthwhile purchase. This type of insurance is designed to provide you with a tax-free income or lump sum

in the event of a serious illness, which could allow you to pay off your mortgage, take an extended holiday or simply jump the NHS queue by paying for your treatment privately.

We can arrange this type of cover for you, and will advise you on the level of cover you should choose.

We will calculate the amount of benefit from your pension scheme that you might receive if you fell sick and then compare this to your ongoing requirement for income to determine whether you have a need for additional sickness protection.

If so, we will recommend the most suitable policy or combination of policies to suit your requirements and budget.

Bear in mind that a key factor affecting the cost of sickness protection is your age - the younger you are when you arrange sickness protection, the lower the premiums are likely to be.



## What happens if I die before retirement?

Take care, there could be shortfalls here too...

The scheme provides a death benefit of 3 x your annual salary. This is based on the full time equivalent salary for part time teachers.

In addition, there may be pensions for your family and other dependants although, again, as these are based on your length of service, in the early years of your career these benefits may be extremely low. You will need a minimum of 2 years' membership of the Teachers Pension Scheme to qualify for family and dependants benefits.

If you are single and have no dependants, the scheme benefits are likely to be sufficient.

If you are married or have dependants, you may need to take some action.

### Example - Dependants Pension

A teacher joins the scheme aged 25 and dies after 2 years, on a final salary of £25,000, leaving a spouse and one child:

Pension (Spouse)	£625 a year
Pension (Child)	£312.50 a year

### Example - Dependants Pension

A teacher joins the scheme aged 25 and dies after 5 years, on a final salary of £28,000, leaving a partner and one child:

Pension (Spouse)	£1,750 a year
Pension (Child)	£875 a year

### Example - Dependants Pension

A teacher joins the scheme aged 25 and dies after 10 years, on a final salary of £30,000, leaving a partner and one child:

Pension (Spouse)	£3,750 a year
Pension (Child)	£1,875 a year

## What if my benefits are not enough - what should I do to protect myself and my family?

There are several types of life cover.

### Family Income Benefit

If you wish to provide a set level of income for your family for a defined period of time, a family income benefit plan will provide this.

### Level Term Assurance

If you would rather leave your family with a lump sum of money, this type of plan may suit you better.

Term assurance is arranged for a set period of time so if you die within the term, the plan will pay out the lump sum you have selected.

### Mortgage Protection

Another way you can improve your family's financial position in the event of your death is to ensure that any mortgages or debts can be repaid. Mortgage protection provides a lump sum, which can be used to repay your debts and thus reduce your family's monthly outgoings.

### Whole of Life Policy

This type of cover also pays a lump sum. The plan is arranged on a 'whole life' basis, which means it has no specific end date. You can increase or decrease cover to suit your changing circumstances.

We will calculate the amount of benefit from your pension scheme that your family will receive in the event of your death and then compare this with their ongoing requirement for income to determine whether you have a need for additional life assurance.

If so, we will recommend the most suitable policy or combination of policies to suit your requirements and budget.

Bear in mind that a key factor affecting the cost of life protection is your age - the younger you are when you arrange the life protection, the lower the premiums are likely to be.



## What other financial plans should I be making?

When you meet with one of our Financial Consultants, they will undertake a full financial review for you, to include the areas detailed in this leaflet. In addition, other common areas in which we regularly help NQTs include:

- Mortgage planning – We assist first time buyers, movers and those requiring remortgage facilities for debt consolidation, home improvements or simply to save money
- Savings – short, medium and long term – We offer a range of tax efficient savings plans to help bring your dreams that bit closer
- Buildings and contents insurance – We offer a comprehensive policy that is unique to teachers, ensuring that you are covered for personal belongings in school and school equipment at home as standard, and we offer discounts to teachers too
- Estate planning – We can put you in touch with a reputable solicitor to help you make a will or to address inheritance tax issues.

Think carefully before securing other debts against your home. Your home may be repossessed if you do not keep up repayments on your mortgage.

## Why should I choose Teachers Assurance?

### **Our credentials**

Teachers Assurance has been looking after the financial interests of education professionals and their families for over 130 years.

As a member-owned mutual society, we have no shareholders so the only people that benefit from the profits we make as a company are our members. Should you choose to invest in one of our with-profit funds, you too will become a member of Teachers Assurance.

### **Our people**

Our Financial Consultants, some of whom hail from the teaching profession themselves, mainly deal with teachers and have expert knowledge of the Teachers Pension Scheme and its associated benefits.

### **Our service**

You can choose to receive advice face to face at a time and place convenient to you, or over the phone if you prefer. We have a nationwide team, so we can help you wherever you are now and wherever you choose to move to. All consultations are free and without obligation.

### **Our products**

We offer a bespoke range of competitively priced, easy to understand savings and investment plans.

To complement our range, we also offer products from a carefully selected panel of companies.

Our aim is simple - to provide you with straightforward value for money.

Our consultants provide advice on investments, savings, protection and pension products and services from Teachers Assurance and selected third party providers.



## Where do I go for more help?

### Teachers Pension Scheme

To obtain further information or accurate illustrations of your benefits:

Address: Teachers' Pensions, Capita Hartshead, Mowden Hall, Darlington, DL3 9EE

Telephone: 0845 6066166

Website: [www.teacherspensions.co.uk](http://www.teacherspensions.co.uk)

### Teachers Assurance

To obtain advice on all aspects of your financial planning:

Complete the attached coupon or call us now on freephone 0800 731 1093 or visit our website at [www.teachersassurance.co.uk](http://www.teachersassurance.co.uk) using the 'Contact Us' option to request an appointment with one of our Financial Consultants.

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## My personal details are

Title \_\_\_\_\_

Surname \_\_\_\_\_

Forenames \_\_\_\_\_

Address \_\_\_\_\_

Postcode \_\_\_\_\_

Email \_\_\_\_\_

Contact telephone number: \_\_\_\_\_

Best time to contact: \_\_\_\_\_

Would you prefer advice

At home?  Over the phone?

Date of birth \_\_\_\_\_

Marital status \_\_\_\_\_

Workplace \_\_\_\_\_

Years of Service \_\_\_\_\_

Areas of interest: \_\_\_\_\_

Would you like to see if we can save you money on your home and contents insurance?

Yes  No

Renewal Dates: Buildings (Month) \_\_\_\_\_

Contents (Month) \_\_\_\_\_

Please hand to your Financial Consultant or post to:

**Teachers Assurance, Tringham House,  
Deansleigh Road, Bournemouth, BH7 7DT**



### Customer Notification / Marketing Consent

Your information will be held by the Teachers Assurance group of companies and added to our marketing databases. It may be used to keep your records up to date, for business analysis and market research purposes and to advise you by post, telephone and/or electronic methods about any products and services that may be of interest to you. We may pass your details to other carefully selected organisations but only for the purposes mentioned above.

If you do not want to receive such marketing information, please tick this box [ ]

Subject to payment of a fee, you can ask for a copy of the personal information we hold about you by writing to the Data Protection Officer, Teachers Assurance, Tringham House, Bournemouth, BH7 7DT. For details of the Teachers Assurance group of companies, please refer to our website [www.teachersassurance.co.uk](http://www.teachersassurance.co.uk)

## Teachers Assurance

Tringham House, Deansleigh Road, Bournemouth BH7 7DT Tel: 01202 435000 [www.teachersassurance.co.uk](http://www.teachersassurance.co.uk)

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