

Reform of the Teachers' Pension Scheme (TPS)

Jeff Rogerson

DfE TPS Policy and Reform Team

LGA Conference 17th September 2013



Department
for Education

Agenda

- **Background and progress as at this time last year**
- **What has happened since last year**
- **Latest on reformed scheme design**
- **Outstanding issues and where we go from here**



Background And Progress As At This Time Last Year

- **Move to index-linking in line with Consumer Prices Index**
 - completed April 2011
- **Government had accepted Lord Hutton's recommendations**
 - as a basis for negotiation and a framework for reform
- **Contributions increase**
 - year 1 increases implemented April 2012
- **Negotiations on the framework of the reformed TPS complete**
 - December 2012 – DfE proposes final Heads of Agreement (HoA), covering proposed design for the TPS
 - March 2012 – HoA becomes Proposed Final Agreement, following extensive negotiations this sets out the detailed design for the TPS
 - July 2012 – Chief Secretary to the Treasury confirms that reforms are to go ahead
 - On the basis there is sufficient support from public service unions to proceed with implementation of the proposed final agreements across the public service schemes



Background And Progress As At This Time Last Year – Continued

- **TPS specific discussions started with unions and employers**
 - DfE officials, Union General Secretaries
 - Discussion Forum established – DfE Officials, Employers, Unions**covering:**
 - Contributions increase
 - Detailed scheme design/implementation issues

- **Discussions with HM Treasury and other schemes**
 - Over-riding issues such as:
 - Transitional arrangements
 - Fair Deal
 - Transfers
 - Valuation



What's Happened Since Last Year - Year 2 Contributions Increase

- **Savings of £2.8bn per year**
 - delivered by 2014-15: 40% in 2012-13; 40% in 2013-14; and 20% in 2014-15
 - TPS savings of £810m per year
- **Average 3.2% percentage point increase over the three years**
- **Protection for lower paid**
- **Year 2 consultation - key issues:**
 - further protection for new teachers
 - administration implications



Year 2 Contributions Increase Continued

Outcome of consultation announced January 2013 and implemented
1 April 2013

| Lower Salary | Upper Salary | Contribution rate 2013-14 | Increase against 2012-13 | Increase against 6.4% |
|--------------|--------------|---------------------------|--------------------------|-----------------------|
| £0 | £14,999 | 6.4% | 0% | 0% |
| £15,000 | £25,999 | 7.0% | 0% | 0.6% |
| £26,000 | £31,999 | 7.9% | 0.6% | 1.5% |
| £32,000 | £39,999 | 8.8% | 1.2% | 2.4% |
| £40,000 | £44,999 | 9.2% | 1.2% | 2.8% |
| £45,000 | £74,999 | 10.1% | 2.1% | 3.7% |
| £75,000 | £99,999 | 10.6% | 2.2% | 4.2% |
| £100,000 | Upwards | 11.2% | 2.4% | 4.8% |



What's Happened Since Last Year - Reformed Scheme Implementation

- **Public Service Pensions Act 2013**
 - Royal Assent 25 April
- **Discussion Forum Meetings**
 - Considered: Career Average, Family and Ill-Health Benefits; Transition; Flexibilities; Membership; Governance; etc.
- **Meeting with General Secretaries**
 - Specific Issues like valuation, as well as implementation
- **Meetings with Treasury, GAD, Other Government Departments**
 - Cross-cutting issues like transition, transfers and flexibilities
- **Consultations**
 - 7 May to 28 June on detailed policy implementation proposals
 - 13 September (to 11 November) on draft regulations (including response to policy consultation and update to equalities impact assessment)



Latest on reformed scheme design – the basics

- **Career average based pension**, 1/57th of pensionable earnings
 - earnings include residential emoluments and overtime
- **Pension benefits** calculated annually and added together at retirement
- **Treasury order + 1.6%** added to pension benefits each year that a member is **in service**
 - Or for proportion of year where member leaves during the year
- **Treasury order** added to pension benefits where member is **out of service**
- **CPI** where benefits are **in payment**



Latest on reformed scheme design – who is affected

Full Protection

- Active members at 1 April 2012 within 10 years of Normal Pension Age (NPA) remain in the current scheme

Tapered Protection

- Tapered protection for members within a further 3.5 years of their NPA remain in the current scheme until a specified date

Other members

- Others go into the career average scheme on 1 April 2015

But lose full and tapered protection if have a break in service of more than 5 years, or when benefits are drawn down in full.



Latest on reformed scheme design – what happens to accrued benefits

- **Accrued benefits** remain in final salary scheme
- **Final Salary benefits** will be calculated using the “final salary” at retirement
 - I.e. The salary earned whilst in the reformed scheme but using the final salary scheme methodology to determine it (e.g. best three in ten etc.)
- However, final salary link is lost if a member has a **break in service of more than 5 years** ending after 1 April 2015
 - In which case the salary used to calculate the benefits will be the salary at the point of the break



Latest on reformed scheme design – the new NPA

- The **qualification period** for benefits remains 2 years of pensionable service
- **Normal Pension Age** equal to State Pension Age
 - reformed scheme service only
- If a member's **SPA rises**, then NPA will do so too for all post-2015 service



Latest on reformed scheme design – member benefits

Age, AAB and Premature retirement

- New NPA applies but other arrangements largely unchanged
- Reduced actuarial reduction rate (3%) will apply to active members for up to three years where NPA is over 65, e.g. 3% would apply to two years for a member with an NPA of 67.

Phased retirement

- Members can take 3 draw downs, but only 2 before age 60

Ill Health benefits

- Considered against new NPA
- Enhancement will be calculated using new NPA and salary at point of retirement, or at point of 'stepping down' if appropriate.
- Allow in-service applications where a member 'steps down' or has left service in last 2 years due to the same illness

Abatement

- Does not apply to benefits earned in the reformed scheme but still applies to benefits earned in the final salary scheme.



Latest on reformed scheme design – death benefits and survivor's pensions

- **Death in service** - 3 x final salary
- **Death out of service before retirement** – member's pension x 2.25
- **Surviving adults** will receive 37.5% of a member's career average benefits
- A **surviving child** will receive 18.75% of a member's career average benefits if only one child
- If **more than one child** they will receive 37.5% of a member's career average benefits divided by the number of children
- 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



Latest on reformed scheme design – flexibilities

- **Additional pension** facility will continue, i.e. available in reformed scheme too.

New Flexibilities

- Members can elect to pay a higher contribution rate in return for a **faster accrual** rate (1/55, 1/50 or 1/45), for a particular year, at full member cost.
- **Reduced Actuarial Adjustment Factor** (standard reduction) - 3% for up to three years beyond 65, where member's NPA is above 65
- Members in the new scheme with a NPA higher than 65 will have an option to pay additional contributions to **reduce, or remove any early retirement reduction** that would apply to the **period after they are 65** if they were to retire before their NPA (maximum period is 3 years).
- The total **limit** available for all flexibilities is likely to be similar to the current limit that is applied to additional pension, except it will be permissible to exceed the limit if buying-out the early retirement reduction.



Latest on reformed scheme design – transitional

- Members who move from the final salary scheme into the reformed scheme and have **service in both**
- **Pension** will consist of final salary and reformed scheme benefits
- **Benefits must be drawn together** - except where the member is out of service after their NPA in the final salary scheme, when they can choose to take their final salary benefits on an age basis and leave their reformed scheme benefits for later.
- Once in the reformed scheme, **insurance type benefits** (ill-health, TIB, survivor's, etc.) are determined **under the new arrangements**.
- **Phased retirees** can choose to draw up to 75% of benefits from either scheme or both



Outstanding issues and where we go from here

- Some issues still subject to central consultation/discussion
- **Scheme Valuation and Cost Cap**
 - HM Treasury likely to be consulting further on Directions
 - Activity on the valuation is underway, e.g. consultation with unions and employers on assumptions
 - Hope to finalise around the turn of the year
 - Employer contribution rates will be determined from that
 - Will also need to consult on arrangements for employee contributions for 2015 onwards
 - The cap will be set at 2% above, and the floor 2% below – provides backstop protection for employers and the taxpayer
- **Transfers**
 - Commitment to maintain the public sector transfer club, discussions on-going on how to deliver that (protection and indexation issues complex)
 - Further consultation with TPS arrangements finalised next year



Outstanding issues and where we go from here – other connected issues

- **Year 3 Contributions**
 - Starting point is rolling forward current tiers and apply new percentages
 - Plan to consult and finalise around the turn of the year
- **Fair Deal**
 - HM Treasury consulting on final arrangements for new extended Fair Deal
 - Plan to incorporate in current TPS regulations as soon as possible thereafter, and carry forward into the reformed scheme
- **Same Sex Marriage**
 - Working with Government Equalities Office on amending the current TPS regulations, these will be carried forward into the reformed scheme
- **Premature Retirement and AVC Regulations**
 - No significant policy change but plan to update the regulations next year



Outstanding issues and where we go from here

– summary of current plans

- **Contributions increase**
 - Consultation on options - to January 2014
 - Year 3 increase implemented - April 2014

- **Implementation of policy - issues and arrangements**
 - Regulations consultation till 11 November 2013
 - Consider consultation response and lay Regulations by April 2014
 - Complete valuation in line with HM Treasury Directions and determine contribution rates (employers and employees)
 - Complete discussions on transfers and determine arrangements for the TPS in line with HM Treasury guidance
 - Consideration of consequential amendments to the 2010 TPS Regulations, miscellaneous issues, PRC and AVC regulations
 - Consult on and lay Regulations/Amending Regulations covering the above (valuation, transfers, etc, plus Fair Deal and Same Sex) – by Autumn 2014.

- **Other implementation issues**
 - On-going work on communications, systems, IT, etc. – Theresa covering later.
 - Establishment of TPS Pensions Board/Scheme Advisory Board



Key Points For Employers

- **Have sought to ensure the TPS still effectively supports recruitment, retention, and workforce management**
- **Employer roles and responsibilities remain largely unchanged**
 - I.e. manage scheme locally, advise staff, remit contributions
- **However need to be aware of changes and prepared to guide and help staff**
 - Multi-employments, opt-out elections
 - Department and Teachers' Pensions providing support in that, e.g. guidance and modellers on website
- **Some specific transitional issues need to be alive to**
 - Protections, timing of ill health applications, survivor benefits
- **Need to be alive to data and payroll issues**
 - Different salary arrangements in reformed scheme
 - Flexibilities – elections and deductions
 - Premium on accurate and timely data



Sources Of Information/Contact

- **The Teachers' Pensions Website:**
<https://www.teacherspensions.co.uk/>
- **DfE Consultation Website:**
<https://www.education.gov.uk/consultations/>
- **Jeff Rogerson:** Jeffrey.Rogerson@education.gsi.gov.uk

