Department for Education

Consultation – Proposals for implementation of the reformed Teachers' Pension Scheme in 2015

Contents

Introduction

This consultation represents a key step in the process of public sector pension reform which began with the Government's commitment to review the long-term affordability and sustainability of the public service pension schemes.

The reformed Teachers' Pension Scheme (TPS) will ensure that the scheme will remain one of the best available. It will provide members with a high-quality and sustainable pension that reflects their valued service to education, and will help employers to attract and retain excellent teachers.

This consultation sets out the Department for Education's (the Department's) proposals for the detailed scheme design and operation of the reformed TPS which will come into effect on 1 April 2015. The consultation invites comments on the proposals and seeks views on any issues that the proposals raise.

The Department will review responses to this initial consultation over the summer and later this year will issue a further consultation which will reflect these proposals and the outcome of the consultation. The second consultation will include draft regulations which will give effect to the proposed detailed scheme design. Our plan is to make the regulations in April 2014 and bring them into force in April 2015 – this will give the maximum time possible to ensure members and employers are made aware of, and understand, the changes involved.

This consultation will start on 7 May 2013 and run until 28 June 2013.

Background and context

The cost of paying public service pensions has increased by a third in the last 10 years. The increasing burden on taxpayers and concerns about the fairness and sustainability of such pensions are among the reasons why the Government set up the Independent Public Service Pensions Commission (the Commission), chaired by Lord Hutton of Furness, to undertake an independent review of public service pensions and to make recommendations about how pensions can be made sustainable and affordable, whilst at the same time, remaining fair to the workforce and the taxpayer.

Lord Hutton made clear that the 2007 reforms of the TPS and of other public service schemes had not gone far enough. Specifically, those reforms did not address the imbalance between employer and scheme member contribution rates that had arisen from increases in life expectancy - where the cost had fallen exclusively on employers. In 2005-06, expenditure on the TPS was approximately £5 billion. By 2015-16, this cost is forecast to rise to almost £10 billion.

Lord Hutton also said a career average scheme is a fairer way of calculating pension benefits, because members get broadly the same amount of pension for every pound put in. Under final salary schemes, the most highly-paid employees with considerable earnings growth during their careers take out more than is proportional to their contributions because their benefits are based on their last few, high-earning years. Lord Hutton estimated that such highly-paid employees can receive almost twice as much in pension payments as those with lower salary growth.

A copy of the Commission's final report can be downloaded at:

http://www.education.gov.uk/schools/careers/payandpensions/pensions/a00213667/tps-eia

On 9 March 2012 the Department published a Proposed Final Agreement (PFA) which set out the design for a reformed TPS. The key provisions of the reformed scheme include: a pension based on career average earnings; an accrual (build up) rate of 1/57th; and a Normal Pension Age (NPA) equal to State Pension Age (SPA), but with options to enable scheme members to retire earlier or later than their NPA.

The PFA also covers the Government's commitments on protecting accrued benefits and those closest to retirement who have less scope to change their retirement arrangements, including:

- those within 10 years of their existing NPA on 1 April 2012 will see no change to the age at which they can retire, and no decrease in the amount of pension they receive when they retire;

- those over 10 but under 13.5 years from their existing NPA on 1 April 2012 will remain under the final salary arrangements for an additional period of time beyond April 2015, with the length of that determined by how close they were to their NPA; and

- all members will have their final salary benefits linked to their salary when they retire, rather than when they move to the reformed scheme – these are all dependent on the members not having a break in service of over five years.

Since the announcement of the PFA, the Department has continued to work with scheme member and employer representatives to discuss the technical aspects of the new scheme. In September 2012, the TPS Discussion Forum was set up to facilitate discussion between the Department, teachers' unions, employer representatives and the Scheme administrator (Teachers' Pensions). The remit of the Forum is to discuss:

- the practical and technical implications of the scheme design as set out in the PFA, with a view to identifying solutions;
- contributions/tiering design for 2013-14 and 2014-15, informed by consideration of scheme member opt-out data;
- contributions design for 2015 onwards;
- equality considerations, cutting across all three main areas for discussion set out above; and
- the administrative impact and implications of the new scheme.

In line with the Government's commitment on public service pension reforms, the Department's aim is that the reformed TPS will provide the basis on which Teachers' Pensions are determined for at least the next 25 years.

Equality

The Department has carried out an equality impact analysis of the reformed TPS. The results of the analysis were published in the '*Reform of the Teachers' Pension Scheme Equality impact assessment'* document in September 2012. A copy of the document is available at:

http://www.education.gov.uk/schools/careers/payandpensions/pensions/a00213667/tps-eia

The Department remains committed to taking equality considerations into account when developing proposals for the reformed TPS. The Department does not consider any further equality implications have arisen as a result of the proposals contained in this document. This however will continue to be monitored, and we will provide an updated analysis later in the year. We propose this will coincide with the consultation on the draft regulations for the reformed TPS in the autumn.

Areas not covered in this consultation which will be a part of arrangements under the reformed scheme

There are core areas of pension policy set out below that cut across all public sector pension schemes and remain the responsibility of HM Treasury. Where this applies the Department will follow HM Treasury direction to implement these specific policy areas.

Valuation

Valuing all of the costs and benefits associated with a pension scheme is a highly complex process. Scheme actuaries will carry out these valuations, with certain key parameters specified in directions set by HM Treasury to ensure consistency between schemes. However, there are differences between public service workforces that may require different schemes to use different data, methodology and/or assumptions when carrying out valuations. Directions will set out the process by which these will be discussed between scheme actuaries, HM Treasury and other stakeholders, such as trade unions. These stakeholders will be involved via normal scheme governance arrangements.

More information on valuation can be found on the HM Treasury website using the following link.

<http://www.hm-treasury.gov.uk/d/actuarial_valuations_publicservicepension121112.pdf>

Fair Deal

The Government has committed to a Fair Deal policy which will enable staff who are compulsorily transferred from the public sector to retain access to public service pension schemes.

Consultation on the Government's proposal for new Fair Deal arrangements ended in February and, since then, HM Treasury has been considering with the public service pension schemes how and when the new arrangements will be implemented and the practicalities involved.

More information on Fair Deal can be found on the Treasury website using the following link

http://www.hm-treasury.gov.uk/consult_fair_deal_policy_pensions_publicsector.htm

Public Sector Transfer Club

The PFA confirms the Government's commitment that the public sector transfer club will continue. The club arrangements ensure that pension issues do not act as a disincentive to staff moving between different parts of the public service. HM Treasury is currently working with the public service pension schemes to consider how the club arrangements can be best adapted to take account of the reformed schemes. We expect details of what is proposed, and how that relates to TPS members, to be included in the second-stage consultation planned for September.

Timing and process

This first-stage consultation sets out: how it is proposed the reformed scheme will be implemented; what the impact will be on those who enter the scheme on, or after, 1 April 2015; and the transitional arrangements, including for scheme members with the protections outlined above. The consultation will enable members, employers and other interested parties to identify, and express views on, any issues associated with the implementation of the new scheme, including anything on equality and additional burdens.

The Department's response to this consultation will be covered within the second-stage consultation scheduled for early autumn. That will present the draft regulations covering the reformed scheme and consequential amendments to the existing arrangements. The draft regulations will take into account views received through the first-stage consultation and reflect provisions laid out in the Public Service Pensions Act 2013.

Using the consultation document

The document outlines the proposed elements of the TPS, explains how the scheme will work in practice, and how it would apply to different members. The document takes each element of the reformed scheme (e.g. member's pension, death and dependants' benefits, scheme flexibilities) and sets out how they will operate. The section on Transition explains how scheme benefits will be calculated for those scheme members who will have service in the current scheme and the reformed scheme.

Glossary

To assist understanding, a full glossary is provided at Annex 1; this explains certain terms and references used throughout the consultation document.

Section 1: How career average pensions will be calculated

Overview

1.1. This section sets out proposals for how scheme members' pensions will be calculated under the career average arrangements that will be introduced from April 2015.

The key elements of the PFA that affect scheme members' pensions are:

- a pension scheme design based on career average.
- an accrual rate of 1/57th of pensionable earnings each year.
- revaluation of active scheme members' benefits in line with CPI+ 1.6%[1]
- revaluation of deferred scheme members' pension in line with CPI.
- NPA equal to SPA, which applies both to active scheme members and deferred scheme members (new scheme service only). If a member's SPA rises, then NPA will do so too for all post-2015 service [NB this only applies to service in the reformed scheme].
- optional lump sum commutation at a rate of 12:1, subject to HMRC limits and regulations.

How scheme members' pensions will be calculated

1.2. Each year, a scheme member will 'bank' an amount of pension at a rate of $1/57^{th}$ of their pensionable earnings in that year.

Example:

Jane's earnings for 1 April 2015 to 31 March 2016 are £30,000. She will earn a pension of:

£30,000 x $1/57^{th}$ = **£526.32**

If Jane earns £31,000 in the following year, to 31 March 2017, her benefits 'banked' for that year would be: £31,000 x $1/57^{th}$ = **£543.86**

[1] References to "CPI" relate to the Consumer Prices Index which is currently used as the basis for determining cost of living increases for public service pensions. The index used could change in the future. Under the Public Service Pensions Act 2013, the annual change in the index to be used for in-service index-linking will be set out in a separate HM Treasury order each year.

1.3. Total pension is then made up of the amounts banked each year, with index-linking applied.

Revaluation (index-linking) of benefits

1.4. The PFA provides that the value of the pension is maintained by applying index-linking annually. Different rates of indexation will apply depending upon whether the scheme member is active (i.e. working and contributing to the scheme) or has become deferred (i.e. no longer contributing to the scheme but has not yet drawn their pension). For the TPS, the rates are CPI + 1.6% whilst the member is in active service or CPI where a member is deferred.

The index-linking addition will be applied at the start of each subsequent scheme year, i.e. April. Assuming that CPI is 2.5% throughout, then Jane's pension would be indexed as follows:

- At the start of her second year of service (April 2016) her pension 'banked' in year 1 (£526.32**(A)**) is increased by 4.1% (CPI of 2.5% plus 1.6%)
    - Index-linking addition: £526.32 x 4.1% = £21.58**(B)**
    - New total pension = £547.90**(C)** (i.e. A+B)
- At the start of her third year of service (April 2017), her revalued benefits from year 1 and her benefits banked in year 2 (£543.86), are collectively index-linked as follows (assuming CPI=2.5%).
    - Revalued pension from Year 1 = £547.90**(C)**
    - Pension from Year 2 = £543.86**(D)**
    - Equals total pension at end of year 2 = £1,091.76**(E)**
    - Index-linking addition at start of year 3: £1,091.76 x 4.1% = £44.76**(F)**
    - New total pension = £1,136.52**(G)** (i.e. E+F)

So at the start of her third year, when Jane has earned £30,000 and £31,000 for the previous two years, her total pension earned will be £1,136.52 and any amounts earned in subsequent years will be added to that, with index-linking applied, to form her final pension.

The effect on revaluation of a break in service

1.5. As already explained, the rate of CPI + 1.6% will be used to index-link pensions, provided that the scheme member is contributing to the scheme. Once the member becomes deferred, their pension will be increased by CPI only.

Example:

Majid becomes a teacher and joins the TPS on 1 April 2015. Majid leaves teaching in August 2018 and does not transfer his benefits to the pension scheme covering his new job. He returns to teaching in September 2025, after a break of more than five years, when he rejoins the TPS. Majid then remains in teaching and in the TPS until August 2055 when he reaches his NPA. Majid's pension will consist of two amounts which will be added together to form his total pension:

- the first amount will consist of his pension for the period April 2015 to August 2018, index-linked by the in-service factor (CPI + 1.6%) during that period and the out-of-service factor (CPI) thereafter; and

- the second amount will consist of his career average benefits for the period September 2025 to August 2055, index-linked by the in-service factor, CPI + 1.6%, during that period.

1.6. However, the exception to this is where the teacher does not draw their benefits and returns to being an active scheme member within five years. This means that:

- Pension benefits will attract in-service index-linking (i.e. CPI + 1.6%) up to the start of any break.

- From the start of the break onwards, pension benefits earned to that point will have out-of-service index-linking (i.e. CPI) applied and:

    i. where the teacher returns to being an active member within five years then the in-service index-linking rate (CPI + 1.6%) is applied as if the member has never left (i.e. on a backdated basis) and that rate applies going forward;

    ii. where the teacher returns to being an active member after a break of over five years pension benefits earned up to the point of the break will continue to be index-linked in line with the out-of-service rate and only pension benefits earned from the point the scheme member returns to service will attract in-service index-linking (i.e. CPI + 1.6%); and

    iii. where the teacher never returns to being an active member the out-of-service index-linking rate will apply until the pension benefits are drawn.

1.7. When a scheme member retires and takes their pension in full, any subsequent service would constitute an entirely separate pension, (even if the member returns to pensionable service within five years of drawing the pension). Consequently, any in-service index-linking will only apply to the further pension benefits.

Calculation/Revaluation of benefits where a scheme member leaves part way through the scheme year

1.8. Scheme members can, of course, leave pensionable service at any point during the scheme year (1 April to the following 31 March). Members will receive the in-service index-linking addition for the proportion of the year up to the break and the out-of-service addition for the remainder of the year.

Example

If Jane from the first example (see 1.2 and 1.4 above) works for another five months, from April to August 2017 on a salary of £32,000 and then leaves because she has reached NPA and wishes to draw her pension benefits, the pension payable (annual amount) from September will be calculated as follows:

Benefits from Year 2 = £1,136.52**(G)**

Plus benefits from Year 3:(£32,000 x 1/57 x 5/12 = £233.92**(H)**

Total benefits payable from September Year 3: G+H = £1,370.44**(I)**

Assuming that the in-service index-linking rate for 2017 to 2018 is again 4.1%, Jane's benefits will then be recalculated as follows in April 2018:

In-service index-linking addition (April to August Year 3):

(I) x 4.1% x 5/12 = £23.41**(J)**

Revised annual amount payable from September Year 3: (I+J) = £1,393.85**(K)**

Out of service index-linking addition (September to March Year 3):

K x 2.5% x 7/12 = £20.33**(L)**

Revised Annual Amount Payable From April Year 4:(K+L) = £1,414.18**(M)**

Jane will at that stage (April 2018) be due a back payment of pension for the period September 2017 to March of 2018 of £13.66 ((K-I =J) x7/12).

This is the proportion to cover the difference between the annual pension paid from September 2017 (I) £1370.44 and the revised annual pension due from September 2017 £1,393.85 (K). This can only be applied in April of Year 4 as that is when the indexation rate for Year 3 is known.

Lump sum

1.9. The reformed scheme will not provide an automatic lump sum. However, scheme members will (subject to HMRC tax limits) continue to be able to take up to 25% of the value of their pension, as valued under HMRC rules, as a lump sum. The pension will be converted at a rate of £1 of pension for £12 of lump sum.

> Example
>
> At retirement, Niamh has a pension of £24,000. She chooses to convert £4,000 of her pension to lump sum. Having done so, she would receive an annual pension of £20,000 and a lump sum of £48,000.

1.10. A web-based tool has been developed to assist individual scheme members to get more details on how the new arrangements will affect them. For example, it can be used to illustrate when the member will move to the career average scheme and provide high-level information on how their benefits will be calculated.

Web-based tool: www.teacherspensions.co.uk/reformconsultation

Pensionable earnings

1.11. Pensionable earnings are the earnings against which the scheme member and their employer will pay contributions and is the salary used to calculate the pension earned in any given year. For the majority of members, this will simply be their actual salary. For members with multiple employment, their separate actual salaries will be added together to form their pensionable earnings for any given year.

1.12. That is in line with the current final salary scheme arrangements whereby benefits for part-timers reflect the amount of time worked (though, currently, overall service is limited to full-time equivalent in total).

> Example:
>
> If Henry works 50% of full time, earning £15,000 (against a full-time equivalent salary of £30,000. His career average benefits for the year will be:
>
> £15,000 x 1/57 = £263.16

1.13. The types of earnings that can be taken into account for pensionable earnings (e.g. in terms of allowances) will remain the same as the current scheme, except it is proposed that residential emoluments will no longer be taken into account as pensionable salary. This will not affect payments for a scheme member's residential duties where these are part of a pay agreement.

1.14. The Department considers that it has become inappropriate for a public service scheme to take account of such costs, because in particular:

- the maintained sector typically does not determine salary on a 'benefits in kind' basis and the scheme is designed to cover the maintained sector;
- of the tax implications involved with such arrangements;
- it is virtually impossible for the scheme administrator to assess the real value of such benefits and it is disproportionately costly to maintain the administration systems involved;
- the Exchequer has no control over these costs yet bears the financial risks associated with them (as it underwrites scheme benefits); and
- taking account of such costs could encourage pay suppression.

Temporary reduction in pensionable earnings

1.15. It is proposed to continue with existing arrangements whereby scheme members will continue to have their pensionable earnings and pension protected in certain circumstances. Pension will be calculated on their normal salary, as if it had not been reduced where, for example, a member is:

- on statutory maternity or paternity leave; or
- on half pay due to sick leave.

Normal Pension Age

1.16. The age at which pension in the reformed scheme will become payable will be linked to a scheme member's SPA. However, members will continue to be able to draw their pension at any point from their 55th birthday, subject to certain qualifying conditions (see chapter on Flexibilities).

1.17. Where, following a review of state pension arrangements, a scheme member's SPA changes, all benefits are accrued under the reformed scheme will be linked to the new age – i.e. that will be the age at which the member's entire pension under the reformed scheme, including pension earned before the change, is available on an unreduced basis.

1.18. Proposals for reviewing SPA have been set out in the Department for Work and Pensions' White Paper, Single-tier pension: A simple foundation for saving. Those will include ensuring individuals have sufficient advance warning of any change. Full details can be found at:

http://www.dwp.gov.uk/policy/pensions-reform/state-pension/

Qualifying for benefits

1.19. In line with current arrangements, scheme members will need two years' qualifying service to qualify for pension benefits (including dependants' benefits) (one year if a member has retired having drawn pension benefits previously built up in the TPS and is now in further employment as a teacher). Final salary service will be added together with career average service for qualification purposes, providing those benefits have not been taken in full in respect of any of the service.

Improving understanding and accuracy - scheme member and employer roles

1.20. One of the key advantages of the proposed calculation method is that it will enable scheme members to see very clearly how their pension is building up each year. Members will be better placed to identify, if incorrect information has been used.

1.21. Each year, scheme members will have access to a statement to allow them to check the information that has been provided to the TPS by their employer. The most important single piece of information is the pensionable earnings figure for that year, as that will determine the pension that the member has earned.

1.22. The Department wants all scheme members to receive the pension to which they are entitled under the scheme regulations. To that end, it is essential that members and employers play a full part in ensuring that accurate data is provided and checked. Teachers' Pensions will provide prompts and guidance to support that.

1.23. As is the case now, unless issues are challenged, the information submitted each year by the employer will be assumed to be correct. Any issues raised subsequently will only result in corrections if there is clear evidence that the scheme member was in service, and of the salary earned – if contributions were not paid at the time they will need to be paid (employee and employer) if any correction is to be accepted. The aim is to ensure good practice is followed and to prevent problems when members or employers seek corrections late in the day but which cannot be corroborated because of the passage of time. That can be frustrating for both the member and the employer, as the search for evidence to support the case is often difficult and sometimes impossible.

Question 1: Are the proposed arrangements clear, and, if they are not, what further guidance or support would be helpful?

Question 2: Are there any further issues the Department needs to consider in deciding whether or not to take account of residential emoluments as part of scheme member's pensionable salary?

Question 3: Will the proposals help employers and scheme members to do more to ensure the accuracy of pension-related data and thus benefits?

Section 2: Death grants and dependants' benefits

Overview

2.1. This section sets out the pensions and lump sums that are payable in the event of a scheme member's death. The level or type of pension or lump sum varies, subject to a number of factors, such as whether the member is still contributing to the scheme and whether there are dependants. In line with the current scheme, there will be no qualification period for death grants, and scheme members will need to have completed two years' qualifying service before their dependants are eligible for benefits.

2.2. As now eligible beneficiaries include widows, widowers, civil partners, nominated partners and dependent children. In addition, the provision for a scheme member who has always been single to nominate a financially dependent unmarried close family relative to receive a pension, if they are pre-deceased by the scheme member, will remain. In due course, subject to Government legislation, provision will also be made for survivors of same-sex marriages.

> The PFA was based on maintaining dependants' benefits at current levels, with the following key commitments (section 2 of the agreement applies):
>
> - Spouses'/partners' pension in accordance with current provisions; and
> - lump sum on death in-service of 3 times FTE (full-time equivalent) salary.
>
> This means that dependants' benefits will be maintained at the rate applicable to the current TPS NPA 65 Scheme.

Dependants' pensions where the scheme member dies after leaving pensionable service under the TPS

2.3. Under the current scheme, widows'/partners' pensions (surviving adults') and dependants' pensions are determined on the basis of the amount of the scheme member's service, their final salary and an accrual rate of either 1/160th or 1/120th. The PFA specifies that the rates of these pensions will be maintained in the reformed scheme, which calculates pension using career average rather than final salary basis.

2.4. Under the current scheme, a surviving adult's pension equates to 37.5% of the scheme member's pension (i.e. the member's accrual rate of 1/60th divided by the surviving adults' accrual rate, 1/160th). Therefore, in order to maintain surviving adults' pensions at their current level, it is proposed that it will be calculated as 37.5% of the member's accrued pension.

2.5. It is proposed that a similar approach be adopted for childrens' pensions, which are also currently based on accrual rates of 1/160th where there is a surviving adult and 1/120th where there is no surviving adult.

2.6. Consequently, where there is an eligible child, or more than one eligible child, <u>and a surviving adult,</u> the child's pension will be determined by multiplying the scheme member's benefits by 37.5% (1/60th divided by 1/160th) and then dividing that by 2, or by the number of eligible children where that is more than 2.

2.7. Similarly, where there is an eligible child, or more than on eligible child, and no surviving adult, each child's pension will be determined by multiplying the scheme member's benefits by 50% (1/60th divided by 1/120th) and then dividing that by 2, or by the number of eligible children where there are more than two of them.

Example:

A deferred scheme member called Ravi who had built up a pension of £15,000.

Beneficiary/ beneficiaries	**Surviving adult's pension**	**Child's/children's pension**
Ravi leaves a widow, Huda, and one eligible child, Abha	Huda receives **£5,625** calculated as £15,000 x 37.5%	Abha receives **£2,812.50** calculated as £15,000 x 37.5% / 2
Ravi leaves a widow, Huda, and two eligible children, Abha and Chandran	Huda receives **£5,625** calculated as £15,000 x 37.5%	Abha and Chandran each receive **£2,812.50** calculated as £15,000 x 37.5% / 2
Ravi does not leave a surviving adult but has one eligible child, Abha	N/A	Abha receives **£3,750** calculated as £15,000 x 50% / 2
Ravi does not leave a surviving adult but has two eligible children, Abha and Chandran	N/A	Abha and Chandran each receive **£3,750** calculated as £15,000 x 50% / 2
Ravi does not leave a surviving adult but has three eligible children, Abha, Chandran and Sachin	N/A	Abha, Chandran and Sachin each receive **£2,500** calculated as £15,000 x 50% / 3

Enhancement for dependants' pensions where a scheme member dies whilst an active member of the scheme

2.8. Where an active scheme member dies, there is provision for dependants' pensions to be enhanced in recognition of the fact that the early death of the member is likely to cause the beneficiaries ongoing financial hardship – which death grants alone will not necessarily alleviate.

2.9. Currently, benefits are enhanced by adding an amount of service based on how much service a scheme member has built up and how long the member has to go until retirement. This has the effect of providing the greatest enhancement to older teachers, who are likely to have built up greater pensions, and provides limited additional benefits for many of the younger teachers whose families are perhaps most in need of extra support. It is, therefore, proposed to bring the method of calculating enhancement in line with ill-health enhancements within the TPS.

2.10. The Department proposes accordingly that, where a scheme member dies whilst in service, the pension that has been built up will be enhanced by an amount based on half of the extra pension that they could have earned had employment continued until the NPA. The salary used to determine the enhancement is the full-time equivalent that applied at the time the member died, and that is the case where the member worked part time or more than full time. Where the member is in multiple employment the full-time equivalent salary will be determined by taking appropriate account of the full-time equivalent salary for each job.

Example:

Susan, who works full time, has a NPA of 67, final pensionable earnings of £30,000 and career average benefits accrued so far of £5,000. Should Susan die at age 32, the pension she would have received is enhanced by 17.5 years' worth of additional career average benefits. The enhancement is based on half the period between her death at age 32 and her NPA, 67, and her full-time equivalent salary at the time of death. The enhancement is, therefore £9, 210.53 (calculated as £30,000 x 17.5 x 1/57), Susan's career average benefits are (notionally) increased to £14,210.53 (£5,000 + £9,210.53). Her dependants' pensions are then based on the enhanced amount. The table below demonstrates that:

Dependant(s)	**Pension based on scheme member's unenhanced pension**	**Dependant's pension based on scheme member's enhanced pension**
Susan leaves a widower Karl,	Karl would receive **£1,875** calculated as £5,000 x 37.5%	Karl receives **£5,328.94** calculated as £14,210.53 x 37.5%
Susan also leaves two eligible children, Max and Emma	Max and Emma would each receive **£937.50** calculated as £5,000 x 37.5 % / 2	Max and Emma each receive **£2,664.47** calculated as £14,210.53 x 37.5% / 2
Susan does not leave a surviving adult but has two eligible children, Max and Emma	Max and Emma would each receive **£1,250** calculated as £5,000 x 50% /2	Max and Emma each receive **£3,552.63** calculated as £14,210.53 x 50% / 2

2.11. This approach will result in higher enhancements for the dependants of scheme members who die at younger ages, but will generally reduce the enhancements, compared to current arrangements, for those who die nearer their NPA. The Department considers that it is appropriate to better target benefits to need in the way proposed. This also aligns the provisions for calculating survivors' pensions closely with those for calculating ill-health pensions for members permanently unable to undertake any regular employment.

2.12. The Department considers the proposed enhancement provisions, combined with other benefits, such as death grants, will continue to provide a level of assistance to dependants of scheme members who die near retirement to help them cope financially.

Death grants

2.13. The TPS provides for different levels of death grant to be paid, depending on whether the scheme member is active, deferred or a pensioner. The grants are calculated by reference to the member's status at the time of death (i.e. according to which one of these three categories he or she falls). These will be maintained as set out below.

Scheme member's status at the time of death	Death grant
Active	3 x final salary
Deferred	2.25 x Scheme member's accrued pension
Pensioner	five years' worth of pension less amount paid to the scheme member to date – where members dies within five years of drawing pension

2.14. As set out in the section on scheme members' benefits, and above in this section, pensions in the reformed scheme are linked to amounts earned each year rather than to a single final salary. It is proposed therefore that the salary used to calculate the death grant in respect of an active scheme member will be the final full-time equivalent pensionable earnings at the time of the member's death. So the full-time rate will be used where a member works part time, and, where a member works more than full time, the full-time rate will be determined by taking appropriate account of the rate for each employment involved. This will maintain the consistent treatment of part-time teachers, with full-time teachers and, as final pensionable earnings are most likely to represent the scheme member's highest level of pensionable earnings, ensure the grant reflects the member's likely future income.

2.15. For determining which level of death grant applies, it is proposed to retain the existing definitions and associated time limits for determining whether a scheme member is considered to be active or deferred.

Maintenance of other death grant and dependants' benefits provisions

2.16. There are a number of other provisions from the current scheme that will continue to apply in respect of dependants' and death benefits, e.g.

- the qualification period for death grants and dependants' benefits will remain on the same basis as they are now; and

- the short-term pension arrangements, whereby for a fixed period after a scheme member's death, dependants receive pensions based on either the member's salary (for active members) or benefits (for pensioners) will continue as they are currently.

Dependants' benefits and death grants for scheme members who will move from the final salary arrangements to the career average arrangements

2.17. Further information about benefits in respect of scheme members who have service in the final salary scheme and the reformed scheme is set out in Section 4 (Transition).

Question 4: Are the proposed arrangements for death grants and dependants' benefits clear and, if not, what further guidance or support would be helpful?

Question 5: Do you agree that the Department should amend the arrangements for enhancing dependants' pensions where a scheme member dies in service to better target them to those in most need, in line with the ill-health retirement arrangements?

Section 3: Ill-health benefits

Overview

3.1. The current two-tier ill-health arrangements were introduced in 2007 and link the level of pension awarded to the severity of a scheme member's illness or injury. If members are assessed as being permanently unable to teach but able to do other work up to their NPA, they will receive immediate payment of their accrued pension. If however, they are assessed as being permanently unable to teach or to undertake any gainful employment up to their NPA, they will be eligible for enhanced pension. Under the reformed scheme NPA will equal SPA, and ill-health benefits will be determined on the basis of that.

3.2. The qualification period for ill-health benefits will remain as two years' qualifying service.

The PFA states;

- Ill-health benefits the same as those in the current open scheme.

How unenhanced ill-health pension is calculated.

Example:

Chris is age 30 with an NPA of 68, and has accrued a pension of £2,935 and has full-time equivalent pensionable earnings at the time of his ill-health retirement of £32,500. He is assessed as being unable to continue in teaching but able to undertake other employment. As with the current arrangement, his pension of £2,935 would be paid and Chris would be able to undertake further work outside teaching without his pension being affected. In the event that he returned to teaching, however his pension would be stopped.

How enhancement will be calculated

3.3. Enhancement is paid when an active scheme member is no longer able to undertake any form of paid work either in or outside of teaching. In the current scheme, the total amount of enhancement a member may receive is half the remaining service that could have been completed before reaching the NPA. The amount is added to service already accrued and applied to their final salary at retirement to calculate the total pension. The Department proposes to replicate this arrangement under the reformed scheme, as set out below.

Example:

Chris is age 30 with an NPA of 68, has accrued a pension of £2,935 and has full-time equivalent pensionable earnings at the time of his ill-health retirement of £32,500. His pension would be enhanced by £10,833.33, calculated as follows:

- £32,500 (his full-time equivalent pensionable earnings at retirement)
- multiplied by 19 (half his prospective service to his NPA, i.e. ((68-30)/2))
- multiplied by 1/57 (the accrual rate).

This enhanced pension would be added to his actual accrued pension – giving him a total pension of £13,768.33.

Salary to be used where a scheme member with an illness has reduced their hours or salary as part of a move to manage the illness

3.4. Where a scheme member has reduced hours or taken a post of less responsibility, (stepped down) as part of steps taken by their employer to help manage the illness, then the salary used for calculating any enhanced pension would be the higher of:

- Full-time equivalent salary at retirement, or
- the re-valued full-time equivalent salary from the point at which the individual stepped down (i.e. with index-linking to bring it up to the present-day value).

Enhancement where a scheme member is not working full time or is on reduced pay

3.5. At retirement a scheme member who works part time will continue to have any enhancement calculated on the basis of their full-time equivalent salary at retirement. Where a member works more than full time, the full-time equivalent rate will be determined by taking appropriate account of the rate for each employment involved.

3.6. The final full-time equivalent salary will also be used in certain other circumstances, e.g. when a scheme member is on maternity leave or on half pay due to sick leave prior to ill-health retirement. In those circumstances, the salary used will continue to be the one that the member would have received had he or she been in full-time employment.

Example 1:

- Ben works 50% part time in an academy and receives an annual salary of £30,000, the full-time equivalent of which is £60,000

- Any enhancement to Ben's pension would be calculated using an annual salary of £60,000.

Example 2:

- George works 60% part time in an FE college and receives an annual salary of £36,000, the full-time equivalent of which is £60,000. He also works 50% part-time in another teaching role in another FE college receiving an annual salary of £25,000 against a full-time equivalent salary of £50,000.

- Any enhancement to Ben's pension would be calculated using an annual salary of £55,454.55 (calculated as £60,000 x 60/110 + £50,000 x 50/110), with 110 representing the total portion of full-time worked).

How short-service serious ill-health grants will be calculated

3.7. It is proposed to maintain the current arrangements for access to such grants. This means that a one-off grant will be available to scheme members, with more than one year but less than two years' service, who are suffering from serious ill health,(i.e. they have a life expectancy of less than one year).

3.8. Such scheme members currently receive a grant equivalent to between one month's and two months' worth of their final full-time equivalent salary depending on how many months they have actually worked. The Department proposes that, in future, all such members will receive a grant equivalent to two months' worth of their final salary (or the amount of contributions they have paid in if that is higher). This levelling up makes the calculation simple to understand and administer whilst also ensuring that no one loses out by comparison with current provisions.

Time limits for making in-service applications

3.9. In 2007, changes were made to arrangements governing applications for ill-health retirement. The changes included a provision whereby, as long as a teacher remains in a contractual relationship with their employer (i.e. were still employed), they are regarded as being in service for the purposes of making an application for ill-health retirement. This is the case even if they are no longer receiving half pay (which is the normal criterion for being regarded as in-service). This is important as other changes meant that out-of-service applicants are not eligible for enhancements to benefits and have to prove that they are incapable of any work (not just teaching) in order to qualify for any ill-health retirement benefits. The arrangement was introduced to help employers to support teachers with long-term illnesses. In particular, it avoids disadvantaging such teachers where the employers are giving them more time to try to return to work but that eventually does not prove possible.

3.10. In practice, this has not always worked effectively, particularly for those with slow-to-develop or difficult-to-diagnose conditions or conditions where it is difficult to access suitable treatment. Since 2007, to avoid individual scheme members being disadvantaged, the Department has exercised discretion in a number of cases to extend the deadlines for submitting applications. That is not an ideal solution, as it involves uncertainty for the member and may result in members who in fact would be considered eligible from not applying because they think the scheme rules do not cover them.

3.11. The Department proposes, therefore to change the definition of the circumstances under which an application would be regarded as 'in service' if:

- it is made within two years of the scheme member ceasing to receive pensionable pay, and
- the illness at the time of leaving service is the same one which results in the application being accepted.

3.12. The period of two years is proposed because occupational health advice, and scheme experience, is that this is a reasonable time within which to achieve a diagnosis and undergo treatment options, even with slow-to-develop or difficult-to-diagnose illnesses.

Question 6: Will the Department's proposals for calculating ill-health benefits and short-service serious ill-health grants ensure scheme members continue to be appropriately supported, or is there anything else the Department needs to consider?

Question 7: Will the Department's proposals for extending the time limits for making an in-service ill-health retirement application be sufficient to appropriately help those with difficult-to-diagnose or degenerative illnesses?

Section 4: Transition

Overview

4.1. This section deals with how the move to the reformed scheme will affect current scheme members of the TPS. In particular, it deals with how members' and dependants' pensions and lump sums, along with other benefits, will be calculated for those members who have service in both the final salary and reformed schemes.

The key elements of the PFA that deal with Transitional Protection are set out below (sections 6 and 7 of the Agreement apply).

- Scheme members who, as of 1 April 2012, have 10 years or less to their current pension age will see no change in when they can retire, or any decrease in the amount of pension they receive at their current NPA.
- Scheme members who are within a further 3.5 years of their NPA, i.e. up to 13.5 years from their NPA will have limited protection with linear tapering so that for every month of age that they are beyond 10 years of their NPA, they lose 2 months of protection. At the end of the protected period, they will be transferred into the new pension arrangements.

4.2. The approach set out in the PFA maintains the Government's commitment to ensuring that the reforms are introduced in a way that helps ensure scheme members have ample time to adjust their pension saving accordingly – through, in particular, providing protection for those members who are near to their current NPA.

4.3. If a scheme member has qualified for benefits, pensionable service in the current scheme and the reformed scheme will be added together. As now, members who for example have accrued two years or more of pensionable service will qualify for retirement benefits.

4.4. In addition, benefits accrued in the final salary scheme will be protected. For example, they will continue to be linked to the pension age against which they were built up (60 or 65). Only benefits earned after a scheme member moves into the reformed scheme will be tied to the member's SPA.

4.5. Furthermore, where a scheme member's service in the current and reformed scheme is continuous (i.e. there was not a gap of more than five years between the two), the benefits under the current scheme will continue to be linked to the member's salary at retirement (and will be until they are drawn, provided there is no subsequent break in-service after 1 April 2015 of more than five years).

4.6. A web-based tool has been developed to assist individual scheme members to get more details on how the new arrangements will affect them. For example, it can be used to illustrate when the member will move to the career average scheme and provide high-level information on how their benefits will be calculated.

Web-based tool: www.teacherspensions.co.uk/reformconsultation

Scheme members who have Full Protection

4.7. Scheme members with full protection, i.e. those who were active scheme members and within 10 years of their NPA on 1 April 2012, will not see any change to their current benefit arrangements provided they do not have a break in service of more than five years. So benefits will continue to be determined on a final salary basis in the same way as now. An 'active scheme member' on 1 April 2012 includes those either:

- in service, i.e. paying contributions and accruing benefits, on 1 April 2012; and
- those who were out of service on 1 April 2012 but still had accrued benefits in the scheme, and who return to paying contributions and accruing benefits within five years of having left service.

4.8. In the event of such a scheme member having a break of more than five years and rejoining the TPS, or drawing all their final salary benefits and then returning to pensionable service, they will enter the career average arrangements on 1 April 2015, or when they rejoin if that is later. Benefits would then be calculated in line with those for other transitional members, see paragraph 4.12 below for details, or, where all final salary benefits have been drawn in full, in line with a member who only has service in the reformed scheme.

Scheme members who have Tapered Protection

4.9. Those who were active scheme members (see 4.7 above – this also covers those out of service and who return within 5 years) and within 13.5 years from their NPA on 1 April 2012 will have a period of tapered protection before they enter the reformed scheme; i.e. they will stay in their current final salary scheme until their protection period ends - see Annex 2 and the web-based tool for more details.

Web-based tool: www.teacherspensions.co.uk/reformconsultation

4.10. During that period, benefits will continue to build up and be calculated in line with the current final salary arrangements, provided the scheme member involved does not have a break in service of more than five years. If a member returns after a break of more than five years or after that transition date if this is earlier, the protection will cease and the member will enter the reformed scheme with future benefits being built up in that scheme.

4.11. Once the protection period is over scheme members move to the reformed scheme and thereafter, benefits would be calculated in line with those for other transitional scheme members - see paragraph 4.12 below for details.

<u>Transitional scheme members</u>

4.12. Scheme members who have benefits in both the final salary and reformed scheme are ‘transitional scheme members’. This includes:

- any scheme members with final salary benefits who move to the career average arrangements on, or after, 1 April 2015;
- scheme members with tapered protection who then move to the career average scheme; and
- scheme members who had protection but have lost it as a result of a break of more than five years.

4.13. Members will still be able to choose when to retire and draw benefits. As now benefits will be available from age 55, or can be drawn after the NPA that applies to them. However, the following conditions will apply to transitional scheme members’ retirement benefits:

- if the member takes actuarially adjusted benefits, or is granted premature retirement, they must take all their benefits at the same time (i.e. both final salary and career average benefits);
- final salary benefits will only be able to be drawn separately to career average benefits where the member is past the NPA that applies to the final salary benefits (age 60 or 65) and is out-of-service (at which point they have qualified for them); and
- if granted phased retirement, the proportions of benefits taken do not have to be the same from both schemes, i.e. a scheme member can choose to take the same percentage from both their final salary and career average benefits (up to the maximum of 75% of each), a different percentage from each, or benefits from the final salary or career average scheme only.

4.14. When a transitional scheme member takes their retirement benefits, separate calculations will apply to the final salary and career average elements of the pension, with the relevant amounts combining to form one payment[2]. Adjustments will, however be made in respect of any

[2] Different arrangements will apply where a transitional member has had a break in service after the NPA for their final salary service, those benefits will become due from the date the break occurred and will be paid from that date (with interest where they are being claimed late).

part or parts of their pension that are being paid before, or after (except in the case of NPA 60 benefits where actuarial enhancement does not apply), the NPA that applies to those particular pension benefits.

The case studies at the end of this section give examples of how pension will be determined for transitional members depending on when it is being drawn.

Link to the salary at retirement

4.15. For all scheme members, any benefits built up in the final salary scheme will be protected and remain in that scheme. When benefits are calculated at retirement, they will be linked to the member's most recent pensionable earnings (but using the final salary scheme rules). However, as set out above, the link is dependent on the member's final salary and reformed scheme service being treated as continuous, and the member not having a break in service of more than five years ending after 1 April 2015. Where there is such a break, the member will get a deferred pension award. Final salary benefits will be determined on the basis of salary details when the break started and will then be uplifted for inflation up to the point the scheme member draws the benefits involved.

Example:

Seamus, who reached NPA with five years' pensionable service in the NPA 60 scheme, five years in the NPA 65 scheme, and 20 years in the career average scheme without a break in service since the break that resulted in him moving to the NPA 65 scheme. His pension benefits will be calculated as follows:

- final salary x 5/80 (NPA 60) (plus automatic lump sum of 15/80)

+

- final salary x 5/60 (NPA 65)

+

- 20 years of career average pension

i.e. Seamus' pensionable salary each year x 1/57

Andrew's career is different. Andrew reached NPA after completing five years' pensionable service in the NPA 65 scheme, then working overseas for 10 years and then joining the career average arrangements where he completed a further nine years. His benefits calculated as follows:

- Andrew's salary when he left to go to work overseas x5/60, with the resulting pension then increased in line with inflation.

+

- 9 years of career average pension

(i.e. Andrew's pensionable salary each year x 1/57)

Effect on ill-health benefits

4.16. While a scheme member remains in the final salary scheme, there will be no change to how ill-health benefits are assessed and calculated.

4.17. After a scheme member moves to the career average scheme, qualification for ill health benefits, and any enhancement payable (in respect of total incapacity benefits), will be determined in line with the reformed scheme. The member's accrued final salary and career average benefits will be calculated separately, with the amounts being combined to form the member's total accrued benefits. More information can be found in Section 3 (Ill-health benefits).

Effect on death grants and dependants' benefits

4.18. While a scheme member remains in the final salary scheme there will be no change to how any death grants or dependants' benefits are determined and calculated.

4.19. After a scheme member moves to the career average arrangements, dependants' benefits will build up and be calculated under the new arrangements. Any surviving adults' or dependent children's pensions will be a combination of the final salary and career average scheme benefits. Where an enhancement to pension is awarded, i.e. where the member died whilst in service, this will be calculated in line with the reformed scheme arrangements. Any death grant will be based on the pensionable earnings at the date of the death, in line with the reformed scheme arrangements. More information about death grants and dependants' benefits can be found in Section 2 (death grants and dependants' benefits).

Effect on flexibilities

4.20. Scheme members will continue to be able to use the current flexibilities while remaining in the final salary scheme, for example, electing to buy additional pension. Once a member moves to the reformed scheme, any future additional pension would be payable at the member's NPA in the reformed scheme.

4.21. Access to the new additional flexibilities (options to purchase faster accrual, buy-out actuarial reductions, etc.) will become available after a scheme member moves into the reformed scheme. More details are contained in Section 5 (pension flexibilities).

Re-employment after retirement – effect on final salary payable

4.22. Where a scheme member of the current scheme is in receipt of pension benefits from the current scheme and returns to pensionable or excluded employment, their pension is reviewed annually for each tax year. The final salary pension will be abated, (i.e. reduced or/not paid at all) where the total of the pension payments (both final salary and career average benefits) plus the scheme member's new salary exceed the salary that was used to calculate the member's final salary benefits. The salary used to calculate final salary benefits is adjusted each year to take account of inflation. Abatement is not applied to benefits payable on an actuarially reduced basis, or following phased retirement.

4.23. Career average benefits will not be subject to abatement. Consequently, where a transitional scheme member is receiving all their pension benefits, and returns to pensionable or excluded employment, their career average benefits will be unaffected, even if their final salary benefits are subject to abatement.

Transfer arrangements for transitional scheme members

4.24. Scheme members who leave teaching and take up an occupation covered by another pension scheme can request that benefits accrued under the TPS are transferred to the new pension scheme. This option is not normally available once a member has passed their NPA. However, the Department recognises that, in the future, transitional members may choose to work past their NPA in the current scheme (i.e. the NPA that relates to their final salary service), and may also wish to change career after that age. In order to assist that, and the management of the overall public sector workforce, the Department proposes to amend the transfer arrangements to allow members an option to transfer their benefits after their NPA in the TPS to any other public sector scheme which is within the Public Sector Transfer Club.[3]

4.25. The above proposal is being taken forward with HM Treasury and the other public sector schemes as part of ongoing considerations of how the Public Sector Transfer Club will operate under the reformed public service schemes. The outcomes of those considerations will be covered within the second-stage consultation on the draft TPS regulations for the reformed scheme.

[3] A group of occupational pension schemes, mainly within the Public Service, membership which allows easier movement of members within the public sector

Case Studies

Case 1

David entered teaching in September 1979, and has an NPA of 60. He reached age 55 on 1 April 2012. David has full protection and will remain in the final salary scheme until his retirement.

- David plans to retire in August 2016 at the age of 59. As he has full protection David will be able to take actuarially adjusted benefits in line with the current arrangements.

- All of his benefits will be based on the final salary scheme and will be subject to one year of actuarial adjustment to take account of them being paid early. Any subsequent dependants' benefits will also be based on the final salary scheme provisions, and will be based on the unreduced amount of David's benefits – before the actuarial adjustment.

Case 2

Li entered teaching in January 2008. He was born on 1 February 1960 and was aged 52 years and 2 months on 1 April 2012. He has a NPA of 65 for his final salary benefits.

- Li has tapered protection and will enter the reformed scheme on 1 August 2016. He will build up final salary benefits till then and career average benefits thereafter. His NPA in the reformed scheme will be 66.

- Li plans to leave teaching on 1 February 2025, which is his 65th birthday. At that point, he takes his final salary benefits (as he has qualified for them on age grounds) but decides to leave his career average benefits deferred until he is 66, as he wants to take them without an actuarial reduction.

- Li could alternatively take his final salary benefits at age 65 (when he leaves teaching and is past the NPA that applies to them) and take his reform scheme benefits at that point also which would be subject to one year of actuarial reduction (which would be at a rate of 3% under the reformed scheme flexibility for those with NPAs above 65 rather than the current average of 5%).

Case 3

Anisa entered teaching in September 1999. She was aged 36 on 1 April 2012. Anisa will join the reformed scheme on 1 April 2015. Anisa is a transitional scheme member with accrued benefits in the final salary scheme of 15 years and 7 months; for these benefits Anisa has an NPA of 60.

- From 1 April 2015, she will build up benefits in the reformed scheme, and, in respect of these benefits, Anisa will have an NPA of 67.
- Anisa decides to retire from teaching at age 59. She applies for actuarial adjusted benefits from both schemes as she is retiring from both before her NPA. Anisa will be taking her final salary benefits with one year of actuarial adjustment and her career average benefits with eight years actuarial adjustment. The final two years of actuarial adjustment for her career average benefits (i.e. the two after age 65) will be subject to the lower adjustment rate of 3%, in line with the new flexibility in the reformed scheme.

Alternatively, if Anisa chose to work until age 60 and then retire she could then draw her final salary pension on age grounds at that point and either: draw her reformed scheme benefits on an actuarially reduced basis at that point (with seven years of adjustment, the last two of which at 3%); or leave them and draw them at a later stage.

Case 4

Laura begins teaching in September 2015 when she is aged 24. She joins the reformed scheme and builds up career average benefits. Her NPA is 68.

- Laura decides to retire early at age 64.
- Her benefits will be actuarially adjusted (i.e. reduced), as she is taking them before her NPA. The final three years of actuarial adjustment for her career average benefits (i.e. the three after age 65) will be subject to the lower adjustment rate of 3%, in line with the new flexibility in the reformed scheme.

Case 5

Euan began teaching in 1978. On 1 April 2012 when aged 57 he was in service. He qualifies for full protection.

- He retires aged 60 on age grounds in December 2014, taking his final salary benefits in full.
- He enters further employment on 1 September 2015.
- On taking up this employment, he joins the reformed scheme as his protection ceased when he took his full retirement benefits.
- Benefits will accrue and be paid on the basis of the reformed scheme. He will continue to receive pension in respect of his final salary service, though abatement may apply whilst he is working in the new employment, depending on his level of earnings.

Question 8: Are the proposed arrangements sufficiently clear to help ensure that scheme members and employers can effectively manage the transition to the new arrangements?

Question 9: Do you agree that transitional scheme members who have passed their final salary NPA and move within the public service should have the option to transfer their benefits provided their new pension scheme is within the Public Sector Transfer Club?

Section 5: Pension Flexibilities

Overview

5.1. The reformed scheme will provide further options, in addition to those contained in the current scheme, which will enable scheme members to plan and save for their retirement. This section provides details of new options in the reformed scheme:

- faster accrual rates;
- a reduced rate of 3% for up to 3 years of actuarial reduction for those with NPAs of over 65; and
- the option to buy out post-65 actuarial adjustment.

It also highlights where changes are to be made to existing flexibilities in relation to:

- additional pension; and
- phased retirement.

5.2. This section also contains information on HM Treasury's current consideration on the maximum value of extra pension that scheme members can build up through these options.

The key elements of flexibilities within the PFA that affect scheme member's benefits are set out below (section 2 of the Agreement applies).

- Phased retirement arrangements which reflect those in the current scheme, with the additional option of a third phased retirement after a scheme member's 60th birthday;

- Flexibilities to allow scheme members to elect to pay a higher contribution rate in return for a higher accrual rate for a particular year, at full member cost.

- Scheme members who in the new scheme have a NPA higher than 65 will have an option in the new scheme to pay additional contributions to reduce or, in some cases remove any early retirement reduction that would apply if they retire before their NPA. Only reductions that would apply in respect of years after age 65 can be bought out and the maximum reduction that can be bought out is for 3 years (which that would apply to a scheme member with a NPA of 68 or higher);

- Abatement will not apply to service in the reformed scheme. Abatement rules for the current scheme will remain unchanged.

The PFA is silent on the issues of additional pension and actuarially adjusted benefits but these flexibilities will continue in addition to the introduction of the additional flexibilities outlined above.

Faster accrual

5.3. As explained in Section 1, scheme members will earn pension each year at a rate of 1/57th of their pensionable earnings. The PFA, however provides for members to earn pension at a faster rate, by meeting the full cost of the extra pension through additional monthly contributions from salary. Any extra pension accrued through this option would be treated in the same way as other pension, e.g. it would benefit from the same rules on indexation and dependants' benefits.

5.4. The PFA is silent on what accrual rates scheme members can choose the costs of the extra pension will depend on the member's age, salary and NPA. The PFA is also silent on what options members should have to choose the new rate at which they accrue pension. To allow members complete freedom to choose any accrual rate greater than 1/57th would have significant administrative implications for payroll providers, the scheme administrator and the scheme's actuary. Similarly, allowing scheme members complete flexibility over when they started and stopped paying for faster accrual would be administratively complex. It would also make presentation of information on annual benefit statements more complex.

5.5. It is proposed therefore, that scheme members will be given a maximum of three faster accrual rates, to choose from: 1/45th, 1/50th and 1/55$^{th.}$ Members would be able to elect to purchase faster accrual at the start of each April provided that they remain in active service, and they will pay the higher contribution rate for the remainder of the financial year.

5.6. It is proposed that, if a scheme member is out of pensionable service in April but re-enters pensionable service later in the year they can elect to pay a faster rate for the remainder of the financial year. Members will be required to make a new election every financial year. Where a member has more than one contract of employment they will be permitted to make an election for a faster accrual rate in respect of each employment.

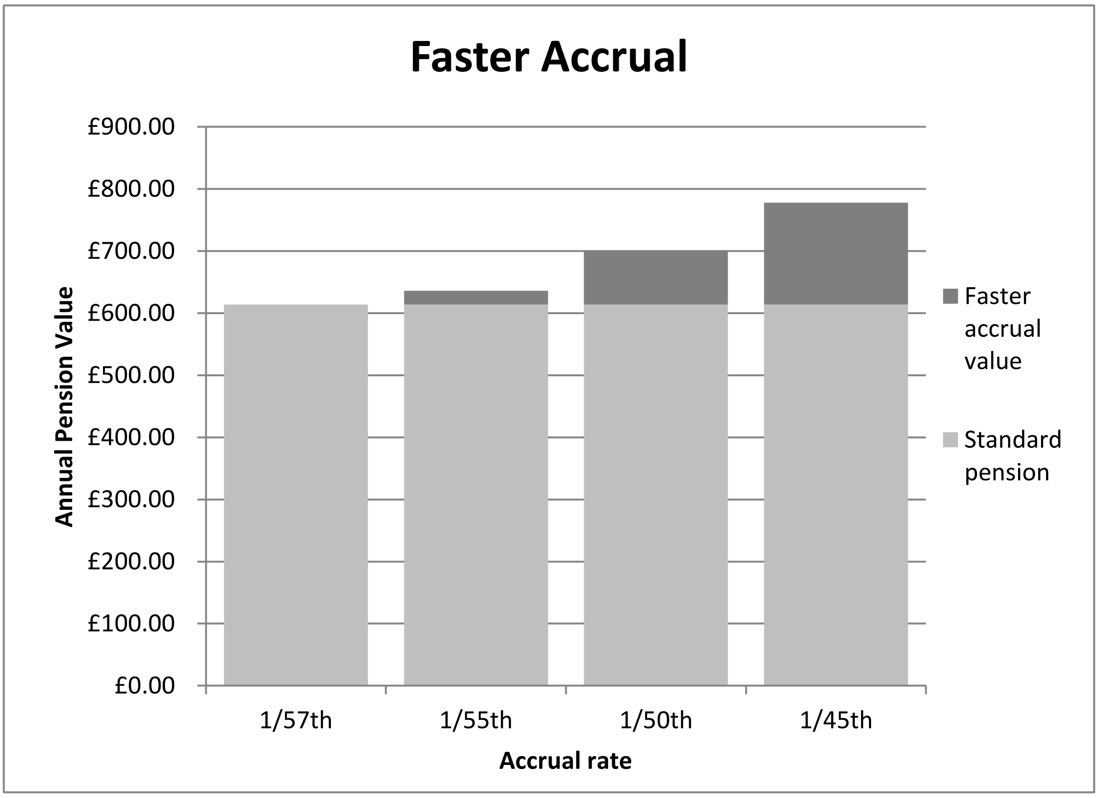
Example:

Joan's salary is £35,000. The pension which Joan builds up in a single scheme year is £614.04

£35,000 x1/57th = £614.04

She could elect to pay for faster accrual and select from a range of accrual rates.

The chart below shows the amount of pension Joan would build up in a single year if she elected to pay for the relevant faster accrual rate - there is more information on the indicative costs involved in the next section, but basically the faster the accrual rate purchased then the higher the cost will be.



Indication of cost for faster accrual

5.7. The table below provides an indication of the additional monthly contributions a scheme member would pay for faster accrual rates on different salaries. This example assumes the member is 40 years old at the time of application. It is possible that different financial assumptions will be used to set the actual factors for higher accrual, and the factors will need to be tailored to the NPA they apply to which could materially impact costs.

Salary	Accrual Rate	Cost (% of Salary)	*Monthly Cost (£)*
£25,000	1/55th	0.8%	£17.50
£25,000	1/50th	3.2%	£67.50
£25,000	1/45th	6.2%	£128.33
£35,000	1/55th	0.8%	£24.16
£35,000	1/50th	3.2%	£94.16
£35,000	1/45th	6.2%	£180
£45,000	1/55th	0.8%	£31.67
£45,000	1/50th	3.2%	£121.67
£45,000	1/45th	6.2%	£231.67

Early/late retirement adjustments

5.8. It is proposed to continue the arrangements from the current scheme which allows scheme members to apply for early/late payment of pension benefits where they leave pensionable or excluded employment after they have reached age 55 and before age 75. Where pensions are paid before, or after, the member reaches NPA, they will be adjusted, on an actuarial cost-neutral basis, to take account of the fact that the benefits are being paid early or late. NB Actuarial adjustment does not apply in the case of late payment of benefits linked to NPA60.

3% Actuarial adjustment

5.9. Where members draw their pension before their NPA, the reduction in the annual pension is on average approximately 5% for each year, e.g. if the member draws the pension four years early, it would be reduced by approximately 20%. However, the PFA provides that where an active member with an NPA over 65 elects to receive the pension before their NPA, the adjustment to the level of benefits will be fixed at 3% for each year (up to a maximum of three years) between age 65 and the member's NPA. This reduction is less than that which would apply using actuarial cost-neutral factors, i.e. approximately 5%.

5.10. It is proposed that this adjustment is applied, regardless of the member's age at the point of retirement, subject to a minimum age of 55 years, though only a maximum of three years between the member's 65th birthday and their NPA will benefit from the 3% rate.

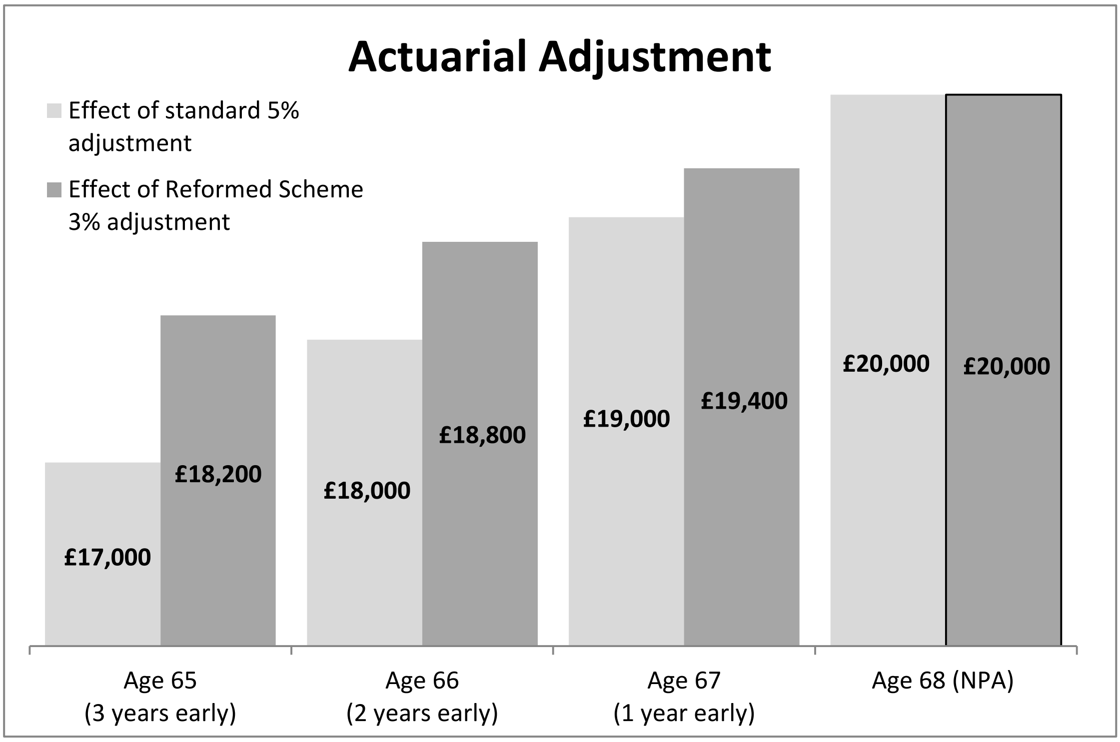
5.11. Take the example of Joan, an active member who has an NPA of 68 and takes her pension at age 65 on actuarially adjusted terms. Joan's pension will be reduced by 9%, i.e. by an adjustment equal to 3% per year for the period between age 65 and NPA.

Example:

Joan has accrued £20,000 of Career Average benefits. She has an NPA of 68. If she decides to take her benefits at age 65 she will have an adjustment of 3% per year (9%) applied to the benefits, which means her pension would be £18,200.

A standard rate of adjustment is applied to all benefits earned before the member reaches the age of 65, and all final salary benefits. The standard rate is on average approximately 5%. The provision of a 3% actuarial reduction will be applied to all active members in the reformed scheme with an NPA over 65.

The chart below shows the effect if Joan took her pension on actuarially adjusted terms either one, two or three years early, and compares the result against the standard rate of adjustment.



Buying-out the post-65 Actuarial Adjustment

5.12. The PFA also provides for an individual scheme member, who is in pensionable service, to buy-out some or all, of the 3% actuarial adjustment referred to above. This flexibility will not provide increased benefits at NPA, but would allow a member to retire from age 65 without any actuarial adjustment being applied.

5.13. The full cost of buying out the 3% actuarial adjustment would be borne by the scheme member, and would depend on the age at which the member commenced paying. It would be paid for by way of monthly contributions. It is proposed that this is a one-off option available to the member when first joining the reformed scheme and that, having exercised this option, the member would commit to paying the additional contributions whilst they were contributing to the scheme.

5.14. The PFA provides that scheme members who apply for retirement benefits before NPA and who are out of service at that point will not benefit from the 3% actuarial adjustment. Therefore, those members who have bought out the post-65 reduction, but are out of service when they draw their benefits, will have their benefits actuarially adjusted but taking account of the adjustment they have bought out, i.e. the pension would be adjusted by the standard actuarial adjustment (approx 5%) minus the 3% adjustment which they had bought out through additional contributions.

5.15. This is a complex arrangement, which may be difficult to administer for employers and the scheme administrator, and one where the level of benefits at retirement is uncertain because of the possibility that the scheme member may be out of service when benefits are drawn. This option may also complicate the many thousands of transfers which take place annually between the current scheme and other public sector pension schemes. The proposal that members will be required to exercise this option when they first join the TPS and to continue paying thereafter will help simplify matters. Alternatives, like allowing members to move in and out of this arrangement, will make it very difficult for them to understand the level of their pension, or precisely what reduction they have bought out, and, therefore, to plan for their retirement.

5.16. In any case, other options are available (additional pension or faster accrual) for those who want to save extra pension in a more flexible way. When most teachers first join the TPS at the start of their careers, they will not know the extent of their career progression, and, therefore, the extent of the financial commitment they are making.

5.17. To ensure that the TPS is protected from rising costs, it is proposed that the cost of buying out the actuarial reduction would be revalued by the scheme actuary, potentially on an annual basis, to take account of the scheme member’s salary progression. This could result in the cost of the provision rising, especially in the event that the member has accelerated career progression.

5.18. In light of the complexities of this option, and the existence of other proposed flexibilities within the reformed scheme, the Department would welcome views on whether this option should feature in the final design of the reformed scheme.

Additional pension

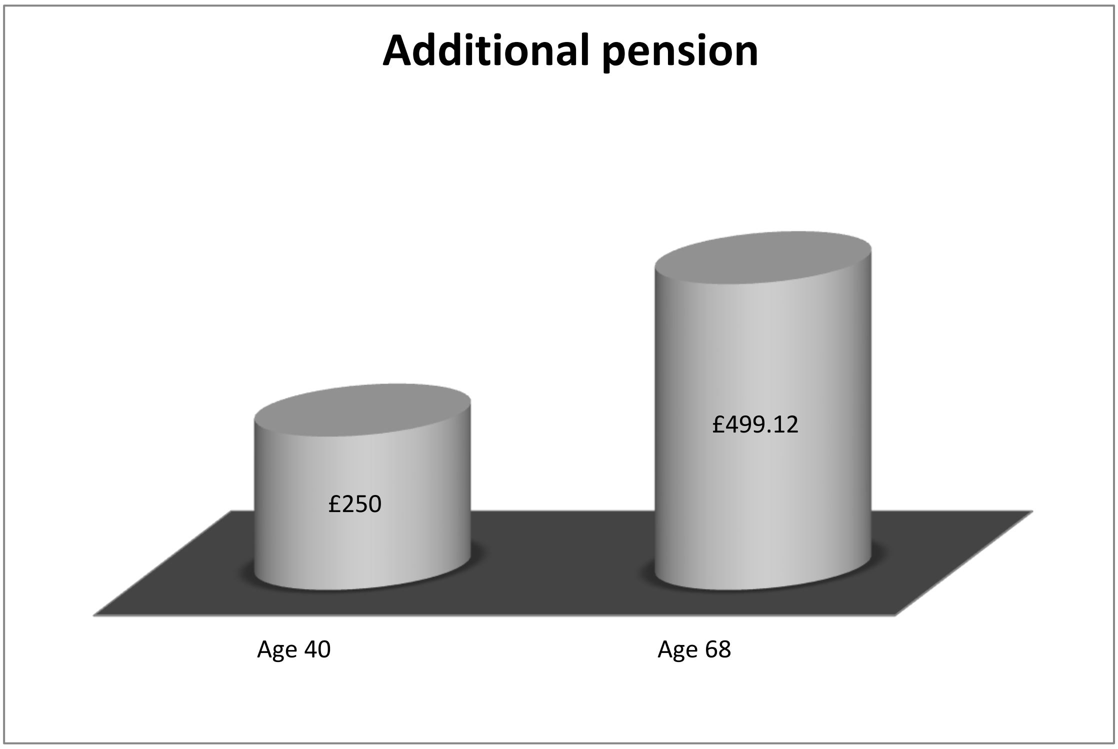
5.19. It is proposed to retain the option in the current scheme which allows a member to buy additional pension to increase their income at retirement. Additional pension can be bought in amounts of £250 per annum, either by deduction from salary or as a one-off lump sum. Additional pension can be bought to provide a member's pension only or to provide members and dependants' pensions, with the cost adjusted accordingly.

5.20. The cost of additional pension is dependent on the member's age and NPA at the time of purchase. Members of the reformed scheme will have a NPA equal to their SPA. If a member's SPA changes at any point during their career, and they have purchased, or are purchasing additional pension, the NPA for their additional pension will also change. The cost of purchasing that pension may then be amended to account for the change in NPA.

Example:

Joan decides to buy £250 of additional pension at age 40. She pays for the additional pension as a lump sum, rather than by monthly payments.

When Joan retires at age 68 the additional pension will be worth £499.12 as it has been increased by index linking. In the example the index linking is assumed to be 2.5% each year. The pension will continue to be index linked each year once it is in payment.



Maximum value of pension that can be purchased via flexibilities

5.21. The purchase of additional pension is currently restricted to an overall maximum of £6,000 for each scheme member. HM Treasury are currently considering what limit should apply in the reformed scheme.

5.22. HM Treasury have indicated that the total sum of benefits accrued through additional pension and faster accrual will be subject to the restriction, i.e. the total extra pension accrued through the combination of these two options cannot exceed £6,000 (current rate). HM Treasury are also giving further consideration to whether the value of the 3% actuarial buy-out should be contained within this restriction.

Phased retirement

5.23. An active scheme member of the current scheme may be able to apply to receive some of their pension benefits, while continuing in pensionable service provided certain conditions are met:

- the member must be in pensionable or excluded employment, or have returned to pensionable service or other specified employment within six months of leaving pensionable or excluded employment; and
- there is a reduction in the scheme member's pensionable salary so the new annual salary does not exceed 80% of the member's previous salary; and
- the reduction in salary must continue for a period of not less than one year.

5.24. In the reformed scheme, members will have the option to take a further (third) slice of phased retirement benefits. This means that members can take phased retirement benefits on a maximum of **three** occasions between the ages of 55 and 75 years, but on no more than two occasions before they reach the age of 60.

Question 10: Do the Department's proposals for the operation of faster accrual provide scheme members with sufficient flexibility whilst also being practical to administer by employers and payroll providers?

Question 11a: Should the option to buy-out the actuarial adjustment feature in the reformed scheme?

Question 11b: Do you agree with the Department's proposals for the operation of this option?

Areas not covered by the Proposed Final Agreement

Section 6: Academy Trusts including Multi-Academy Trusts

Academies

6.1 Academies are automatically accepted into the TPS and the teachers employed by the Academy Trust must be offered access to the scheme. This includes where the private sector is engaged in the ownership, management and funding structures.

6.2 Administrative complications, in terms of collecting data and contributions, can arise where an Academy Trust has responsibility for more than one academy (a Multi-Academy Trust (MAT)). Currently, each academy is viewed as the employer in its own right and each is responsible for fulfilling obligations to the scheme.

6.3 It is becoming increasingly common for teachers to work across a number of academies within the MAT. The Department proposes that, where the MAT chooses, they are accepted as the employer for all academies in the chain and becomes responsible for delivering employer responsibilities for the TPS. This avoids the current problem whereby to have access to the TPS, teachers must be 'employed' by an individual academy.

Question 12: The intention is to ease the administrative burdens on existing arrangements, especially for MATs. Do the proposals outlined in this section address the main issues? If not, why not?

Section 7: Premature retirement and further compensatory payments

Overview

7.1 The PFA did not include a commitment to maintain the discretionary compensation arrangements contained in the Teachers (Compensation for Redundancy and Premature) Regulations 1997 (the PRC regulations). However, the Department recognises that, in managing their workforce, employers may still wish to offer inducements to encourage teachers to leave early and/or to provide additional compensation in redundancy situations. For employers that fall within scope, the PRC regulations provide a framework for such payments to be made.

Premature Retirement

7.2 The reformed scheme will retain a premature retirement option whereby a scheme member may be awarded immediate payment of their accrued career average pension. It is open to any TPS employer to make use of this option where it finds that it is necessary to terminate such a person's employment on the grounds of redundancy or efficiency. Premature retirement may be awarded by any TPS employer to a scheme member who is aged 55 or over and has not reached NPA.

7.3 As with the current scheme, the reformed scheme will not provide any scheme member with automatic entitlement to an unreduced premature retirement pension. This is because there is a cost to the employer in granting this pension and, as such, on individual employer policy. In the case of local authority maintained schools, decisions will also depend on the local authority's policy. Premature retirement pensions are paid in two parts: one part is paid from the TPS and is actuarially adjusted (i.e reduced) to reflect the fact that the pension is being paid before NPA and the second part is the difference between the reduced pension amount and the unreduced pension amount and is paid by the employer. The amount paid by the employer is currently known as mandatory compensation, 'mandatory' refers to the fact that the amount involved is always the difference between the reduced and unreduced amounts, and does not affect the fact that this is something the employer can choose to amend.

Example:

Valerie's employment is terminated in the interest of the efficient discharge of the employer's functions and her employer decides to grant premature retirement. Valerie is aged 58 and has a NPA of 68. During the final year of pensionable service Valerie's contributable salary was £45,000. Valerie has 25 years' pensionable service and has built up a pension of £15,000 pa.

Valerie's premature retirement award of £15,000 pa will be paid immediately and this will be made up of two parts:

Annual TPS pension (adjusted by a factor of 0.613* for early payment) = £9,195

Annual mandatory compensation paid by the employer = £5,805

* The factor of 0.613 is the current factor for a scheme member retiring 10 years early in the NPA 65 scheme. New factors will be produced by the scheme actuary for the reformed scheme.

7.4 The provision for an employer to certify and award a premature retirement pension will continue to be contained in the Teachers' Pensions Regulations, but the calculation and award of mandatory compensation will be provided within a separate set of regulations akin to the current PRC regulations.

Further compensatory payments

7.5 In addition to enabling employers to choose to offer mandatory compensation, the PRC Regulations also provide a statutory framework for certain TPS employers to award further or alternative discretionary compensatory payments to a scheme member whose employment is terminated early on grounds of redundancy or in the interests of the efficient discharge of the employer's functions. Although discretionary, the PRC Regulations define the limits on the amounts that can be awarded.

Discretionary payments

7.6 The discretionary elements of the PRC Regulations currently apply to teachers employed by maintained schools and local authorities, local authority function providers and further education colleges. It is proposed that, from April 2015, these provisions will also apply to academies.

The discretionary elements are as follows:

(i) <u>Discretionary compensation for redundancy.</u> This allows an employer to award a redundancy payment at the weekly rate that applied prior to the introduction of the limited rate specified in the Employment Rights Act 1996.

(ii) Discretionary compensation for termination. This allows an employer to award up to 104 weeks' pay to a person who is made redundant or whose employment is terminated early on grounds of redundancy or efficiency. (Any payment made under (i) must be deducted.) This payment cannot be made to a person who has been awarded an unreduced premature retirement pension, i.e. 'mandatory' compensation.

(iii) Discretionary compensation for premature retirement. Commonly described as 'PRC', the current arrangements allow an employer to pay compensation based on additional years of service i.e. to buy further pension and lump sum. This principle will be maintained and the discretionary compensation will be calculated on the same basis as the current scheme, except that, for a scheme member of the reformed scheme, PRC will be based on the contributable salary during the final year of service. The principle of limiting the amount of PRC that can be awarded to an individual will also be maintained, but the PRC regulations will be amended in recognition of the removal of the default retirement age. It is proposed therefore, in the reformed scheme, the amount of PRC that may be granted will be the lowest of:

- the period between the date of retirement and the person's NPA,
- the length of the effective service, and
- 10 years.

(In the reformed scheme, effective service will be any period that counts for pension purposes or would have been pensionable if the person had not opted out of the TPS.)

Example:

From the previous example, the employer of Valerie has awarded her discretionary compensation for premature retirement based on five years.

The annual PRC awarded to Valerie is calculated as follows:

£45,000 x 1/57th x 5 = £3,947.36

This would be in addition to her accrued pension and mandatory compensation, giving a total pension of £18,947.36

Academies

7.7 Under the current scheme, academies are not subject to the discretionary elements of the PRC regulations described above. This does not prevent an Academy Trust from making these types of award (subject to provisions within the Academy's Funding Agreement). Nevertheless, the Department proposes to update the PRC regulations to bring academies within its scope and enable them to formally use the arrangements where they choose to award discretionary compensation.

Employer options for payment of mandatory compensation and PRC

7.8 The reformed scheme will retain the principles of mandatory and discretionary compensation for circumstances of redundancy and early termination of employment on grounds of efficiency.

7.9 It is also proposed to continue the facility whereby employers that are covered by the relevant regulation can discharge their long-term liability to pay the compensation, for example, pay a lump sum to the scheme administrator which enables the compensation is paid to the member on an ongoing basis.

Question: 13 Do you agree that the proposed PRC arrangements will appropriately assist employers and members where early termination of employment is being considered?

Section 8: Governance

Overview

8.1. Lord Hutton's report sets out the case for the introduction of a Pension Board for each public service pension scheme. The primary aim is to address the lack of a standard approach across government schemes, on things like reporting and statistics that make it difficult for scheme members, taxpayers and others to be confident that schemes are being efficiently and effectively administered.

8.2. Currently the responsibility for the management of all aspects of the scheme (i.e. policy, regulations, administration and governance) rests with the Secretary of State for Education. These responsibilities are largely discharged by officials on his behalf with the day-to-day administration of the scheme carried out by Capita, under a contract placed by, and managed by, Departmental officials.

8.3. In accordance with Lord Hutton's report, the Public Service Pensions Act 2013 requires each public service pension scheme to establish a Pension Board to assist the scheme manager (i.e. the Secretary of State) in securing the effective and efficient administration of the pension scheme. The Act also provides for the Secretary of State to set out in regulations the scope, roles and responsibilities of the Board and other matters such as the process for Board appointments, tenure etc, although the Secretary of State will remain responsible for the overall scheme management.

8.4. The Department is proposing a Board which will provide the scheme membership and employers with clear and direct responsibilities and accountabilities for the administration of the TPS and will ensure that they have the powers to discharge those responsibilities.

Responsibilities of the Pensions Board

Strategy

8.5. It is proposed that the Board, on behalf of scheme members and employers, will set the scope and direction of the administration, as delivered by its service providers and Department's officials. To achieve this, the Board would:

- be forward thinking and able to set out clearly the vision and strategy to administer the TPS;

- challenge and direct the service providers to take forward and improve scheme performance, identify opportunities to enhance the range and quality of services offered by the scheme; and

- develop and manage a risk management framework.

Administration

8.6. Ensuring the effective administration of the TPS is the key function of the Board and will involve close scrutiny of the level and quality of service provided for the scheme membership and stakeholders by the administrator. To carry out this role, it is expected that the Board will focus on scheme performance, continuous improvement, value for money and compliance with statutory requirements.

The Department proposes that the Board will:

- establish the effectiveness, efficiency and value for money of the scheme administration;

- challenge the performance of the service providers i.e. currently Capita (scheme administrator), Government Actuary's Department (scheme actuary) and Atos (medical advisor);

- benchmark the TPS;

- identify and promote good practice and address any areas of weakness with the service providers;

- oversee the procurement of any future TPS administrator(s); this includes making recommendations on the scope of the service, budget, evaluation criteria and signing off preferred provider proposals;

- oversee and make recommendations to the Secretary of State on matters associated with the procurement of other third party functions, such as the appointment of scheme actuaries and medical advisers;

- commission from the administrator additional services to meet changing needs of scheme membership and employers;

- oversee the development of processes and systems to incorporate any new statutory requirements; and

- respond to any requests/directions made by the Pensions Regulator.

Financial

8.7. The Board will be required to provide assurance to the Department's Permanent Secretary about the effective administration and financial management of the TPS, including:

- overseeing, challenging and signing-off TPS budget forecasting;

- providing assurances on the efficacy of financial management (including accuracy and completeness of contributions received);

- ensuring that there is an effective audit strategy is in place for the scheme;

- approving and monitoring audit delivery plans; and

- ensuring compliance with any future regulations

Operation of the Pensions Board

8.8. The Department proposes that the Pensions Board, supported by sub-committees of the Board should meet quarterly. There may be standing committees to consider ongoing issues, e.g. audit and finance or may be ad-hoc to consider specific issues, such as the appointment of a new scheme administrator. Secretariat functions for the Board would be provided by the Department's officials.

8.9. The Board will have oversight of all aspects of scheme administration, but will not make a detailed assessment of the effectiveness of each aspect of the scheme's administration. It is proposed therefore, that the Board takes a risk-based approach whereby it focuses attention on areas of the business where there is evidence that there is a high impact and/or probability of service failure, where there are high levels of customer dissatisfaction, or where the administrator is failing to meet the outcomes specified in its contract. To support the Board in making these judgments, it is proposed that the Board will receive a variety of reports and information, including:

- risk register (maintained by the Board Secretariat team in the Department);

- report from the Department's contract manager;

- reports from administrator on range and quality of services;

- service level and contract outcomes achievements;

- financial reports;

- details of complaints/Pensions Ombudsman's determinations regarding the administration of the TPS;

- benchmarking data;

- audit reports; and

- feedback from stakeholders, including Teachers' Pensions Administrative Forum (TPAF).

8.10. It is proposed that the Board will have the authority to direct the relevant service providers to address and resolve issues which it identifies, and, where necessary, to agree the budget for that additional work to be undertaken. The Board will not have day-to-day contact with the service providers, and it is proposed that the Department's existing contract management team would act on behalf of the Board to ensure that issues were addressed – and report back to the Board via the Departments' Board scheme member. The contract management team would as it does at the moment continue to monitor and challenge all aspects of the service providers' performance.

8.11. It is proposed that, subject to commercial limitations, the Board would publish its meeting papers and would provide an annual report on its work for scheme members and employers; this would be published on the scheme's website.

8.12. The existing TPAF would continue to meet, with the same attendees and remit, to provide direct feedback to Capita and the Department on the administration services and to consider potential service improvements. It would remain the route through which employer and scheme member representatives could raise concerns or suggestions about the administration of the scheme. The Pensions Board would in the event that concerns were not being addressed through TPAF, provide a route of escalation.

Composition of the Pensions Board

8.13. It is proposed that the Board be made up of one third scheme members, one third employers and one third to cover Chair, independent and Department appointments, i.e.

- Independent Chair;
- Four scheme member representatives;
- Four employer representatives;
- Two Department representatives, comprising a senior official from Teachers Group, who would have line management responsibility for the Department's Pensions Team and a senior official from Finance/ Audit;
- One external scheme member with pension expertise and/or knowledge of the education sector.

8.14. It is proposed that there should be a degree of flexibility to this principle, with the Board being able to amend its scheme membership, with the Secretary of State's consent, to reflect the circumstances of the time. For example, if the scheme were to face a particular challenge or undergo a specific change and the Board felt that it would benefit from additional specialist advice, it could recommend that the Secretary of State appoints a suitably qualified person, or persons, to help with that work for a specific period of time.

8.15. Staff from the Department and service providers (e.g. Capita, Atos and the Government Actuary's Department) involved in the day-to-day administration of the scheme will also attend Board meetings for relevant agenda items, as requested, to provide additional technical information and to present papers relevant to the Board's discussions – but these attendees will not be Board members.

A diagram of the Composition of the Pensions Board is at Annex 3

Appointment of Pensions Board members

8.16. It is proposed that the initial appointment of Board members will be for a one to three-year term with no person holding office for more than two terms. The purpose of flexing tenure at the outset is to avoid the need to appoint a full "new" board at the end of the first three-year period. This approach also allows incremental change over time and preserves continuity of service for Board activities.

8.17. It is proposed that the Secretary of State would specify the terms of references and the skills and knowledge required for the posts. It is proposed that the Chair of the Pensions Board and the independent scheme member be appointed by the Secretary of State.

8.18. It is proposed that unions, employer representative bodies (e.g. Local Government Association, Association of Colleges, Universities and Colleges Employer Association) and other stakeholders will be invited to nominate prospective Board members for their respective sectors. These nominations would be considered by the Secretary of State, who will make the final appointment. In the event that more nominees are received than there are vacancies, it is proposed that the Department assess those nominations against the terms of reference and skills required, and make a recommendation to the Secretary of State.

8.19. The Department representatives would be appointed by the Department's Permanent Secretary.

Pensions Policy Group

8.20. In addition to his recommendations on scheme administration, Lord Hutton recommended that each scheme should have a "pension policy group at national level for considering major changes to scheme rules". This recommendation needs to be considered in light of the Government's subsequent commitment that there will be no further reform of public sector pensions within the next 25 years. However, there may always be aspects of the scheme's operation or regulations that will need to be reviewed or amended within the high-level scheme design.

8.21. Lord Hutton recognised that many schemes, including the TPS, already have such policy groups. The Teachers' Superannuation Working Party (TSWP) has existed for many years and provides a forum for discussion between Government, employer and staff interests on policy matters relating to the TPS. It is generally a consultative group, and has previously had no formal terms of reference. The TSWP has met as required, either when the Department has wished to discuss proposed changes to the TPS or where a scheme member organisation (often the unions collectively) sets out a policy issue which it would like to discuss.

8.22. The Department proposes that, following the implementation of the new scheme, the TSWP will remain as the scheme's national policy group. However, the Department will propose separately formal terms of reference for the Group, to be set out in regulations, in order to fulfil the mandatory requirement for a scheme advisory board under section 7 of the Public Service Pensions Act 2013.

Q14: Does the proposed remit, structure and operation of the Board provide scheme members and employers with assurance over the administration of the scheme as recommended by Lord Hutton?

Section 9: Additional consultation questions

Q15: Will the proposals ensure that the TPS continues to help employers to help scheme members manage effectively their careers and retirement?

Q16: Will the proposals help scheme members to manage effectively their pension savings and plans?

Q17: Are there any additional administrative, equality or practical issues that the Department needs to consider in implementing the new arrangements?

How to respond

You can respond to the consultation by completing the response form and emailing it to: reformedteacherspension.CONSULTATION@education.gsi.gov.uk or by sending your response by post to:

Public Communications Unit, LG36, Department for Education, Mowden Hall, Staindrop Road, Darlington, DL3 9BG.

Additional Copies

Additional copies are available electronically and can be downloaded from the Department for Education's e-consultation website at: www.education.gov.uk/consultations

Plans for making results public

The results of the consultation and the Department's response will be published on the Department's e-consultation website in the autumn 2013**.**

Annex 1 Glossary

It is hoped that the following clarifications are useful for the purposes of considering this consultation:

Abatement (abated): A provision in the current scheme where a member's age or premature retirement pension is abated (reduced or stopped) in a tax year if the re-employment earnings exceed a certain limit. Reformed scheme pension is not abated but will be taken into account in the abatement calculation for the current scheme.

Accrual rate: The rate, as a proportion of pensionable earnings, at which pension builds up for each year of membership. The accrual rate in the reformed scheme is 1/57th of pensionable earnings for each scheme year.

Accrued pension: The amount of pension built up in the final salary or career average (reformed) scheme up to the current date. In the reformed scheme, this takes account of the pension earned in all scheme years to date, together with the index-linking that has been applied to date.

Active scheme members: Members paying or due to pay ongoing contributions and accruing benefits in the scheme. For the purposes of index-linking, a member may be treated as having remained active if they return to pensionable service following a break of five years or less, and providing they have not drawn the benefits already accrued in full. For the purposes of protection and tapered protection, a member was an active scheme member on 1 April 2012 provided they were either: paying contributions and accruing benefits at that point; or had done so previously, had not drawn benefits in full, and return to paying contributions and accruing benefits within five years or less of having previously done so.

Actuarial adjustment: The adjustment applied to a member's accrued pension to take account of the fact that it is being paid early, or in some cases late. The adjustment is made using factors, determined by the scheme actuary, which are calculated in a way that aims to reflect fairly the fact that benefits are expected to be in payment for a longer, or a shorter, period.

Actuarially adjusted benefit: A pension which is adjusted by an appropriate factor, where a scheme member has taken benefits before, or after, NPA. For NPA 60 members, there is no actuarial increase for late payment. NPA65 members receive an actuarial increase provided they are in service beyond their NPA, and this provision is being carried forward into the reformed scheme.

Additional pension: Amounts of extra pension which can be purchased by monthly contribution or by lump sum. Employers can purchase on behalf of a member, but must pay by lump sum.

Career average scheme / Career average benefit: A defined benefit scheme that gives scheme members a pension based on a proportion of the salary earned in each scheme year. Amounts of pension earned in previous years have index-linking applied in order to maintain their value.

Commutation / Commutation rate: Commutation is where a member exchanges an amount of annual pension in return for a retirement lump sum. The rate at which pension is given up for a higher retirement lump sum is known as the commutation rate. In the TPS, giving up £1 of annual pension provides £12 of retirement lump sum.

Consumer Prices Index (CPI): An index of inflation published by the Office for National Statistics. This is the current basis for determining cost of living increases for public sector pensions. The index used could change in the future.

Current scheme: The existing final salary NPA 65 scheme, where benefits are calculated on the basis of salary at retirement, length of service, and a 60ths accrual rate. Other members of the final salary scheme have an NPA 60 with 80ths accrual, or a combination of both.

Deferred scheme members: A member who was previously an active member, but has now left pensionable service and not yet taken all pension benefits from the scheme.

Defined benefit pension scheme: A pension scheme where the pension is related to the members' salary or some other value fixed in advance. Final salary and career average are typical examples of such a scheme.

Discretionary compensation: A payment granted by employers in addition to premature retirement at the discretion of employers.

Excluded employment: A period which would be pensionable service, but for the fact that the member has opted out or has remained in a non-pensionable post which commenced before January 2007.

Final salary scheme: A defined benefit scheme that gives members a pension based on their final salary, the accrual rate and the period of service.

Full protection: Scheme members who, on 1 April 2012, have ten years or less to their NPA, will continue to accrue benefits in the current scheme, provided there is no break in service of more than five years.

Index-linking addition: The amount of revaluation added to a scheme member's accrued pension at the beginning of each scheme year.

In-service index-linking: The rate at which amounts of career average benefits are revalued while the scheme member remains in pensionable service as an active member of the TPS. The rate for the reformed TPS will be that specified in the Treasury Order plus 1.6%.

N.B. Where a member returns to pensionable service following a break of less than five years, this rate will apply to the member's benefits earned up to the point of the break, provided the member has not drawn them in full.

Mandatory compensation: A compensation payment, in recognition of loss of office, that is granted by employers where a member has been awarded premature retirement.

Normal Pension Age (NPA): The age at which benefits would come into payment in full, i.e. without actuarial adjustment. NPA is linked to SPA in the reformed scheme. NPA in the current final salary scheme is 65, though many members retain an NPA of 60 under previous arrangements or a combination depending on the member's circumstances.

Out-of-service index linking: Indexation of benefits for deferred members, this is currently linked to CPI.

N.B. Where a member has a break in pensionable service of more than five years, this is the rate that will always apply to the member's career average pension earned up to the point of the break

Pensionable earnings**:** Pensionable earnings are the earnings against which the scheme member and the employer will pay contributions and is the salary used to calculate the pension earned in any given year. For those in multiple employment, including those working more than full-time, the pensionable earnings from all employments can be taken into account in determining the members' benefits, subject to contributions being paid in respect of them.

Pensionable service: A period where the scheme member is an active member.

Pensioner: Members who are in receipt of a retirement pension. In addition, this will also include pensions payable to surviving adults and other dependants entitled to benefits in respect of deceased former members of the scheme.

Phased retirement: Scheme flexibility whereby scheme members can, with their employers' co-operation, manage their transition to retirement. This provision allows members to access some of their benefits, subject to certain conditions, whilst they carry on working on a part-time basis or in a role of lesser responsibility.

PRC (Premature Retirement Compensation): A payment of either mandatory and/or discretionary compensation, awarded by the employer as a result of premature retirement.

Premature retirement: Where a scheme member has left pensionable service early, on the grounds of redundancy or in the efficient discharge of the employer's functions, and the employer has agreed to pay premature retirement compensation under the PRC regulations. The scheme member must have left service from age 55 and whilst the member receives, at least, her or his accrued pension that is a combination of pension paid by the TPS and mandatory and discretionary compensation funded by the employer.

Premature retirement pension: A pension paid by the TPS, payable with compensation funded by employers under the PRC regulations.

Re-employment: Where a member draws their full accrued benefits from the TPS and then either returns to pensionable service and accrues further separate benefits or enters excluded employment (e.g. employment that is covered by the TPS but the member has elected to opt out of scheme membership).

Reformed scheme: The new arrangements for the TPS whereby benefits will be determined on a career average basis, i.e. a percentage of the salary earned in each scheme year.

Restricted salary provision: Applies to members in the current final salary scheme, where their final salary has increased, year on year, by more than 10% over the last three years before leaving service.

Salary – See pensionable earnings.

Scheme member: A person who has contributed to the scheme and is an active member, deferred member or pensioner.

Scheme year: The period 1 April to 31 March.

State Pension Age (SPA): The age at which the State Pension would normally become payable.

Tapered protection: Active scheme members, who, on 1 April 2012, were between 10 years and 13.5 years of their NPA will remain in the current scheme until a specified date (See Annex 2), provided they have continuous service. A break of five years or less is to be disregarded in determining whether service is continuous.

Transition date: The date on which a scheme member with service in the current scheme joins the reformed scheme.

Transitional scheme member: A scheme member with pensionable service in the current scheme and the reformed scheme and is entitled to benefits in both.

Treasury Order: A direction from HM Treasury confirming the amount of indexation to be applied to in-service career average benefits at the beginning of each scheme year. This reflects provisions in the Public Service Pensions Act 2013. In-service index-linking in the TPS is Treasury Order plus 1.6% (See In-service index linking).

Valuation: A report, carried out by the scheme actuary, of the financial position of a defined benefit pension scheme, which informs the contribution rates needed going forward.

Annex 2 – Details of how tapered protection will apply.

NPA 60 Scheme		
Age on 1 April 2012		**First day in reform scheme– The "transition" date**
Years	**Months**	
49	11	01/02/2022
49	10	01/12/2021
49	9	01/10/2021
49	8	01/08/2021
49	7	01/06/2021
49	6	01/04/2021
49	5	01/02/2021
49	4	01/12/2020
49	3	01/10/2020
49	2	01/08/2020
49	1	01/06/2020
49	0	01/04/2020
48	11	01/02/2020
48	10	01/12/2019
48	9	01/10/2019
48	8	01/08/2019
48	7	01/06/2019
48	6	01/04/2019
48	5	01/02/2019
48	4	01/12/2018
48	3	01/10/2018
48	2	01/08/2018
48	1	01/06/2018
48	0	01/04/2018
47	11	01/02/2018
47	10	01/12/2017
47	9	01/10/2017
47	8	01/08/2017
47	7	01/06/2017
47	6	01/04/2017
47	5	01/02/2017
47	4	01/12/2016
47	3	01/10/2016
47	2	01/08/2016
47	1	01/06/2016
47	0	01/04/2016
46	11	01/02/2016
46	10	01/12/2015
46	9	01/10/2015
46	8	01/08/2015
46	7	01/06/2015

NPA 65 Scheme		
Age on 1 April 2012		First day in reform scheme – the "transition" date
Years	Months	
54	11	01/02/2022
54	10	01/12/2021
54	9	01/10/2021
54	8	01/08/2021
54	7	01/06/2021
54	6	01/04/2021
54	5	01/02/2021
54	4	01/12/2020
54	3	01/10/2020
54	2	01/08/2020
54	1	01/06/2020
54	0	01/04/2020
53	11	01/02/2020
53	10	01/12/2019
53	9	01/10/2019
53	8	01/08/2019
53	7	01/06/2019
53	6	01/04/2019
53	5	01/02/2019
53	4	01/12/2018
53	3	01/10/2018
53	2	01/08/2018
53	1	01/06/2018
53	0	01/04/2018
52	11	01/02/2018
52	10	01/12/2017
52	9	01/10/2017
52	8	01/08/2017
52	7	01/06/2017
52	6	01/04/2017
52	5	01/02/2017
52	4	01/12/2016
52	3	01/10/2016
52	2	01/08/2016
52	1	01/06/2016
52	0	01/04/2016
51	11	01/02/2016
51	10	01/12/2015
51	9	01/10/2015
51	8	01/08/2015
51	7	01/06/2015

Annex 3: Composition of the Pensions Board