

## The latest proposals for reform of the Teachers Pension scheme

On 2 November the Coalition Government announced a number of changes to its proposals for reform of public service pension pensions. The DfE produced a statement of what the latest proposed reforms mean for the Teachers Pensions Scheme. The statement can be found at:  
<http://www.education.gov.uk/schools/careers/payandpensions/b00198901/reform-of-the-teachers-pension-scheme> .

We reproduce below the text of the DfE statement alongside the Union’s comments on various aspects of the statement.

DfE statement	NASUWT comment
<p><b>Why is the Teachers’ Pension Scheme (TPS) being reformed?</b></p> <p>The Government commissioned former Work and Pensions Secretary, Lord Hutton, to make recommendations about how pensions could be made <b>sustainable and affordable</b>, whilst remaining fair to the workforce and all taxpayers. His independent report, published this year, made it clear that <b>the cost of pensions is rising rapidly because people are living longer</b>.</p> <p>The average 60 year old can expect to live ten years longer now than 30 years ago. This increase in the length of people’s retirement is putting a strain on both public and private pensions.</p> <p>In 2005-06 <b>the contribution from other taxpayers</b> to teachers’ pensions was around £5 billion. By 2015-16, this contribution is forecast to rise to almost £10 billion. This is not sustainable without affecting other areas of public spending.</p> <p>Lord Hutton also highlighted other reasons for reform, such as the inherent unfairness of current schemes which should provide a fairer deal for the lower paid, and the need for improvements in the governance and administration of public service pension schemes.</p>	<p>The DfE omits to mention that the cost of public sector pensions is set to decline as a proportion of gross domestic product (GDP) due to the significant scheme reforms already made (including higher pension ages and lower indexation). According to the Hutton Report, the total cost of public sector pensions as a proportion of GDP peaked in 2010/11 and will decline gradually from 1.9% to 1.4% of GDP by 2059/60 - and to 1.1% of GDP net of employee contributions (Paragraph 1.3 of Hutton’s Final Report). By contrast, the cost of providing state pensions will rise significantly - from 5.5% of GDP to 7.9% of GDP by 2060/61 - according to the Office for Budget Responsibility (OBR).</p> <p>The cost of providing tax relief on pension contributions already far exceeds the cost to the tax payer of public sector pensions. TUC calculations show that for every £1 the government spends on public sector pensions, £2.50 is spent reducing the tax bill of the top 1% of earners. In 2007/8 tax relief on contributions cost £37.6 billion - almost ten times the cost (net of contributions) of unfunded public sector pensions. This tax relief is heavily skewed towards the well off, with a quarter - nearly £10 billion a year - going to the one per cent of the population who earn more than £150,000 pa.]</p>
<p><b>What changes is the Government proposing for the Teachers’</b></p>	

## Pension Scheme?

The Government wants the Teachers' Pension Scheme to be one of the best pensions available. The proposed scheme keeps high quality benefits that teachers deserve whilst balancing the need for a more sustainable scheme that is **fairer to taxpayers**.

What will stay the same:

- You will continue to receive a guaranteed income in your retirement, **unlike the majority of people with private sector pensions**.
- You will keep the pension and lump sum you have already earned and this will remain linked to your final salary on retirement.
- You will retain options to retire at any age between 55 and 75.

What is proposed to change:

- Moving from a final salary pension to a career average pension scheme.
- **A phased increase to teachers' Normal Pension Age in line with changes to the State Pension Age.**
- **A rebalancing of employee and employer contributions to provide a fairer distribution between members and other taxpayers.**

See comments above on the cost to taxpayers.

While the number of individuals with access to defined benefit pension schemes is declining, Hutton has emphatically rejected 'a race to the bottom' on pension provision. There are still 7.7 million active members in defined benefit occupational schemes, including 2.4 million private sector employees, according to the Government's Office for National Statistics (ONS Pension Trends 2011).

The State Pension Age is already scheduled to increase gradually to 66 between 2018 and 2020 and then to 67 and 68 by 2036 and 2046 respectively. However, the Coalition Government freely admits that it is considering revising this timetable by bringing forward the scheduled dates for increases to age 67 and 68.]

Currently the employer pays 14.1% and teachers pay 6.4% salary towards their teachers' pensions. It is not clear what is 'unfair' about this. Pensions are a form of deferred pay and teachers' salaries are, of course, paid for entirely from the public purse.

Hutton does not define 'fair' in respect of the balance between employee and employer/taxpayer contributions, but suggest that the current ratio of 2:1 between employer contributions and teachers' contributions needs rebalancing. In fact, a ratio of around 2:1 between employer and employee contributions has long been accepted practice in both the public and private sector. The most recent evidence from the Office for National Statistics' latest Occupational Pension Schemes Survey suggests a ratio of 2:1 or

	<p>better remains the norm among defined benefit schemes – the Coalition Government's chosen form of benefits for the public sector – and the average employee in private sector defined benefit (DB) occupational pension schemes in 2009 contributed 5.2% of salary to their pension – significantly less than teachers – while the average employer contributed 16.5% of salary towards DB occupational pension schemes in the private sector – significantly more than the current employer contribution rate to the TPS.</p>
<p><b>Why is Government proposing a move from a final salary scheme to a career average scheme?</b></p> <p>A career average scheme is a fairer way of calculating pension benefits because everyone gets broadly the same amount of pension for every pound put in. Under final salary schemes, the most highly-paid employees take out more than is proportional to their contributions because their benefits are based on their last few, high-earning years.</p> <p>Lord Hutton estimated that the most highly-paid employees can receive almost twice as much in pension payments as those with lower salary growth.</p>	
<p><b>Why is more reform necessary when the Teachers' Pension Scheme was reformed as recently as 2007?</b></p> <p>In making his recommendations, Lord Hutton considered the reforms already made to the public service pension schemes - in 2007 in the case of the Teachers' Pension Scheme and while he acknowledged that savings had been achieved, he pointed out that <b>the cost of public service pensions</b> had increased by around a third because of longer life expectancy over the last 50 years.</p> <p>As a result, cash expenditure on paying</p>	<p>See comments on 'pension costs' above.</p>

<p>pensions to public service pensioners had increased to £32bn over the last decade.</p> <p>In particular the previous reforms had not addressed the <b>imbalance between employer and member contribution rates</b> that had arisen from previous increases in life expectancy where the cost had fallen exclusively on employers.</p> <p>Lord Hutton therefore concluded that there is a clear case for further reform, to ensure the long term fairness and sustainability of schemes.</p>	<p>See comments on 'the ratio of employer to employee contributions' above.</p> <p>The Coalition Government claims that the current public sector pension arrangements are unaffordable and unsustainable, but has steadfastly refused to carry out the latest actuarial valuation of the existing Teachers' Pension Scheme – the one thing that would provide a reliable indication of the future cost of the existing benefits.</p> <p>Instead the Coalition Government has chosen to reduce the rate used to calculate the present value of expected pension payments in the future - the 'discount rate' - for public sector pension purposes but not for other public investment projects, thus increasing at a stroke the cost of public sector pensions.</p>
<p><b>When will these changes be introduced?</b></p> <p>The increase in employee contributions is proposed to be phased in from April 2012. The rest of the changes will not be introduced before 2015.</p> <p>The changes to the Normal Pension Age will be phased over a much longer period with a <b>Normal Pension Age of 68 not expected until 2046.</b></p>	<p>See comments on the likely acceleration of the increase in state pension age to 66, 67 and 68, above.</p>
<p><b>Do these changes only affect teachers?</b></p> <p>No, changes to pension schemes are being made right across the public sector to ensure pensions remain affordable in the future.</p>	

<p>A number of different pension schemes are facing the same changes as the Teachers' Pension Scheme, including the Civil Service Pension Scheme, the Local Government Pension Scheme, the NHS Pension Scheme and the Police Pension Scheme.</p> <p>The Department for Education is working closely with teachers' employer representatives and unions to ensure that any agreement we reach on the design of the reformed Teachers' Pension Scheme is tailored to the needs of the teaching profession and adequately rewards the valuable job they do.</p>	
<p><b>What will my pension look like in the future?</b></p> <p>The changes to the pension scheme are still being discussed with employer representatives and unions, so it is too early to tell you precisely what this will mean for individual teachers.</p> <p>As soon as we can, we will tell you about the changes the Government is proposing and what we expect their impact to be.</p>	<p>On 2 November, the Coalition Government announced some changes to its proposals for changes to public sector pensions.</p> <p>Notwithstanding these changes, the revised proposals still mean that scheme members will pay higher contributions from April 2012 and many teachers, other than those who are within 10 years of their normal pension age, will still be faced with higher normal retirement ages and lower benefits in respect of any service after the changes come into effect in 2015.</p> <p>Teachers are already receiving lower benefits as a result of the Chancellor's decision to change from using the Retail Prices Index (RPI) to the lower Consumer Prices Index (CPI) as the basis for the annual increases to pensions in payment.</p>
<p><b>Will I need to retire before the changes in order to retain my current pension rights?</b></p> <p>Absolutely not.</p> <p>You will keep all the benefits you have built up in your current pension and they will still be based on your final salary at retirement.</p> <p>The career average scheme will only apply to</p>	

<p>service from the date of the change to a new scheme.</p> <p><b>If you retire before the changes you would get a lower pension than you will get if you continue to contribute to the scheme.</b></p>	<p>This is true - because you will forego any further service by retiring before the changes are introduced - but you will still receive lower benefits than the current rate in respect of any future service after the changes take effect.</p>
<p><b>Will I be better off if I opt out of the new Teachers' Pension Scheme?</b></p> <p>It is very unlikely that you will find a private pension that offers you better benefits.</p> <p>A teacher's pension will continue to compare very favourably with private pension schemes and most other forms of investment.</p> <p>The Teachers' Pension Scheme will remain a defined benefit scheme, which means that teachers will still receive a guaranteed income in retirement. Defined benefit schemes are now rare among private pensions, which usually have an unknown income on retirement that depends on the value of an investment fund or cash pot.</p> <p>By opting out of the Teachers' Pension Scheme you would also lose <b>the contribution your employer makes</b> to your pension - currently 14.1%. Funded by all taxpayers, this remains a very generous contribution to teachers' pensions.</p> <p>If you find <b>a private pension scheme that offers better benefits</b> than these, please let us know at <a href="http://www.education.gov.uk/contactus">www.education.gov.uk/contactus</a> .</p>	<p>See comments above on private pensions</p> <p>However, it is not yet known what the employer's contribution rate will be under any new arrangements. See also the comments on employer contributions to DB schemes, above.</p> <p>If by 'private' they mean an 'occupational' pension scheme, then how about the pension scheme for Ministers and Members of Parliament!</p>
<p><b>Will I have to work until I am 68?</b></p> <p>No. Teachers who joined the Teachers' Pension Scheme prior to 2007 currently have a</p>	

<p>Normal Pension Age of 60.</p> <p>Those joining after 2007 have a Normal Pension Age of 65.</p> <p>The Government is proposing a phased increase in the Normal Pension Age for all teachers to align with <b>the State Pension Age</b> - which is currently 65 and due to increase to 68 by 2046. The Normal Pension Age is not a compulsory retirement age and won't be one in the future. It is a reference point from which pension benefits are calculated.</p> <p>Under the proposals, you will still be able to take your pension at any age from 55 to 75, although your annual pension income will vary depending on when you choose to retire.</p> <p>All of the pension you have built up under the current scheme will remain payable in full at either 60 or 65 depending on whether you joined the scheme before or after 2007.</p> <p>Only the pension you build up under the reformed scheme would normally be payable at a later age, but <b>you will still be free to draw that pension at any point from your 55th birthday.</b></p>	<p>See comments on 'increases to the state pension age' above</p> <p>Pensions drawn before normal pension age will be subject to an actuarial reduction on account of their early payment. The higher the normal pension age for those benefits, the greater this actuarial reduction at any age will be.</p>
<p><b>Will I have to pay more for my pension?</b></p> <p>There will be an average contribution increase by 2015, of 3.2% of a teacher's salary, in order to reinstate <b>a fairer balance</b> between members' and employers' contributions.</p> <p>The Government is consulting on the best way to manage this increase over time, and reduce the impact on the relatively lower paid.</p> <p>Under the consultation proposals, teachers earning between £26,000 and £32,000 will only pay an extra 0.9% in 2012-13, with higher earners paying up to an additional 2.4% depending on their salary.</p> <p>Teachers will continue to receive tax relief on</p>	<p>Yes, on average 50% more.</p> <p>See comments above about contributions.</p> <p>The recent consultation exercise on increases to employee contributions refers only to 'how' not 'whether' the increases will be introduced</p> <p>These are just the first tranche of proposed increases in teachers' contributions to the TPS to be phased in over the next three years. The full amount, averaging 3.2 % of salary by 2014/15, represents a fifty per cent increase in members' contributions.</p>

pension contributions which will reduce the impact of this on their take-home pay.

For individual teachers the impact on take home pay will be:

Salary	Reduction in monthly take-home pay
£24,000	£9.83
£33,000	£26.83
£45,000	£46.66
£65,000	£52.41

## How much pension do teachers currently receive when they retire?

The amount of pension a teacher receives is determined by reference to their salary and length of service. The average pension for teachers retiring at their normal pension age is approximately £10,300. However, that figure includes pensions for teachers with shorter careers, including former teachers who will have had as little as two years' service.

## Am I likely to get less under the new scheme?

This will depend on your circumstances and the content of the reformed scheme – which has still not been determined.

Teachers who are close to retirement will see **very little change in their pension benefits** because the pension they have already built up will be protected.

The Teachers' Pension Scheme will still be amongst the very best pension schemes

As mentioned above, the Coalition Government have announced some changes to its original proposals.

Notwithstanding these changes, the revised proposals still mean that scheme members will pay higher contributions from April 2012 and, other than those who are within 10 years of their normal pension age, teachers will still be faced with higher normal retirement ages and lower benefits in respect of their service after the changes come into effect in 2015.

Furthermore, the pension you eventually

<p>available, and the reforms will ensure that it remains affordable and fair to teachers and taxpayers.</p>	<p>receive will be increased in line with the Consumer Prices Index rather than the Retail Prices Index. Historically, the CPI is significantly lower than the RPI and an indication of the potential impact of this on your pension can be obtained using the ready reckoner on the NASUWT website at: <a href="http://www.nasuwt.org.uk/RPItoCPI">www.nasuwt.org.uk/RPItoCPI</a>.</p>
<p><b>Are these changes being negotiated with the unions?</b></p> <p>Yes. The proposed changes to the pension scheme are still under discussion.</p> <p>The Government is continuing to hold constructive meetings about pension reform with unions to agree what the final scheme will look like. These are genuine discussions which involve open consideration of options for reform.</p> <p>The Government is taking teachers' views very seriously in its efforts to reach agreement on a scheme which reflects the needs of the profession and the value of the work which teachers do.</p>	<p>It is true proposed changes to the scheme are currently the subject of discussions between the Government, employers and unions, but the discussions do not include all the recent or proposed changes. For instance, the highly damaging change from RPI to CPI indexation (referred to above) was introduced in the Chancellor's 2010 budget without any consultation whatsoever.</p>
<p><b>Will women lose out?</b></p> <p>The pension benefits payable under the TPS are calculated on exactly the same basis for men and for women.</p> <p>Both women and men would see an impact to their pension if they take time out of their careers, for example to raise a family, but this is also true in relation to the current scheme.</p> <p>In both schemes, the amount paid on retirement depends on the number of years of contribution.</p>	<p>The deferred pensions of early leavers are already being increased in line with the lower CPI increases rather than the RPI under the changes already introduced, see above. Similarly, any accrued benefits for 'early leavers' earned under the proposed career average arrangements are likely to be increased up until their retirement by less than the accrued pension of those who remain in teaching (i.e. most probably in line with the CPI rather than in line with earning, like the accrued benefits of 'stayers'.</p>

<p><b>At what age do teachers normally retire?</b></p> <p>For teachers who joined the TPS before 2007, their Normal Pension Age is 60.</p> <p>Entrants to the TPS from 1 January 2007 have a Normal Pension Age of 65.</p> <p>In both cases teachers are able to draw their pension at any age between 55 and 75 with adjustments to reflect any early payment. About one third of active members of the TPS already have a Normal Pension Age of 65.</p>	<p>Under the proposed change, the Normal Pension Age in respect of future service (i.e. service after the changes take effect) may be linked to the State Pension Age, which is set to increase to 66 and eventually 68, see above. This will effect the 'adjustment' for early payment in respect of benefits for future service - the higher the normal pension age, the greater the actuarial adjustment for early payment in respect of those pensions.</p>
<p><b>What does the Normal Pension Age mean?</b></p> <p>The Normal Pension Age is a reference point from which pensions are calculated.</p> <p>It is not a compulsory retirement age and there remain options to work longer to build a larger pension or <b>retire earlier on a reduced pension.</b></p>	<p>See comments above on the cost of drawing pension before normal pension age.</p>
<p><b>How much do employers and Government pay towards the cost of teachers' pensions?</b></p> <p>The <b>employer contribution</b> is currently 14.1% of teachers' salaries.</p> <p>For teachers working in the maintained sector, the employer contribution is met from funding provided by Government.</p>	<p>It is not yet known what the employer's contribution rate will be under any new arrangements. The Government will also set a 'contributions cap' (as yet unknown) to limit the level of employer contributions in the future.</p>

## Why hasn't there been a valuation of the current Teachers' Pension Scheme?

Lord Hutton's independent review of public sector pensions established a compelling case for the need for reform to **address the rising costs of schemes** and to ensure that they were fair and sustainable.

The purpose of valuing the Teachers' Pension Scheme is to establish a good understanding of the past, present and future costs of the scheme. The Government is already doing extensive work on understanding the costs, and likely performance of a reformed TPS, in order to ensure we establish a robust, reliable and good value scheme for the future.

It is important that everybody involved in the development of the new TPS has a really good understanding of the costs and factors that affect performance. We are ensuring that all of these are made clear through the ongoing discussions between the Government and teachers' unions.

See comments on the 'cost of public sector pensions' above.

The Coalition Government has steadfastly refused to allow the latest valuation of the Teachers' Pensions Scheme to go ahead.

This is a fundamental flaw in the Government's case. Teachers are being told they must pay more, work longer and get less because the cost of their pensions is unaffordable and unsustainable yet the same Government refuses to produce the one piece of information - in the form of the latest scheme valuation - that could prove or disprove this.

## Isn't the Teachers' Pension Scheme in surplus?

The Teachers' Pension Scheme - like most public service pension schemes - is an unfunded scheme. This means that current pension contributions, both from employees and employers, are not invested into a pension pot, but are instead used to help offset the cost of paying pensions to current pensioners.

There is no pensions fund as such, and therefore there is no surplus.

The shortfall between contributions received and pensions paid each year is met by the Exchequer.

See comments on 'pension costs' above.

<p><b>How will the new Teachers' Pension Scheme affect existing pensioners?</b></p> <p>Existing pensioners will not be affected by any changes being proposed to the reformed Teachers' Pension Scheme, other than the changes to indexation which have already been implemented.</p>	<p>This highly controversial change in the index used for increasing pensions in payment from the RPI to the CPI (see above) took effect from April 2011.</p> <p>On average the CPI has been around 0.75% pa lower than the RPI and thus represents the 'cheaper option' for indexing pension and other state benefits. According to Hutton, the switch from RPI to CPI 'may have reduced the value of benefits to scheme members by around 15 per cent on average' (paragraph Ex11, Interim Report).</p>
<p><b>Why did the Government change the method for indexing pensions from the Retail Prices Index (RPI) to the Consumer Prices Index (CPI)?</b></p> <p>The <b>CPI provides a fairer reflection of costs</b> faced by pensioners than is provided for by the RPI.</p> <p>The <b>CPI is more appropriate</b> because it includes the whole UK population, whereas the RPI excludes expenditure by households with the highest incomes and some pensioners.</p> <p>Public service pensions will continue to be index linked and individuals will be protected against increases in the cost of living.</p>	<p>The NASUWT is challenging the change in the method of pension indexation in the High Court. If the Union's legal challenge is not successful, future increases to all teachers' pensions will be significantly lower over time. For more on the effect of change from RPI to CPI indexation go to: <a href="#">The Change from RPI to CPI</a></p> <p>This is highly questionable. The RPI is a valuable and widely used measure of price inflation. The CPI excludes important cost elements, including mortgage interest and housing costs, that are represented in the RPI and to which many pensioners will be subject before and after their retirement.</p>