Your Pension

TEACHERS’ PENSION SCHEME

General Guide – Contributions and Benefits

GUIDE 1

Your Scheme
The Teachers’ Pension Scheme (TPS) is a defined benefits final salary scheme, which provides a guaranteed pension and a tax-free lump sum. It is governed by the Teachers’ Pension Regulations 1997, as amended, and is administered by Teachers’ Pensions, Mowden Hall, Darlington, DL3 9EE (Tel: 01325 745745).
The scheme also offers a wide range of other benefits, including ill-health retirement benefits; death and family benefits; facilities to increase the pension and lump sum; and protection of the benefits against inflation.
The level of contributions payable to provide the various benefits is maintained under the regulations at 6%.

Full-time Teachers
Full-time teachers in maintained schools will automatically pay contributions into the TPS, unless:
• they specifically opt out and make provision for retirement by taking out a personal pension policy with an insurance company or similar institution; or
• rely solely upon the Government’s second tier pension provision, currently the State Earnings Related Pension Scheme (SERPS).

Part-time Teachers
Teachers working in a part-time capacity in maintained schools will not pay contributions automatically to the TPS and will have to make a specific election to join the scheme.

Teachers who are not Eligible to Join
Teachers employed by agencies or in private schools may not be eligible to join the Teachers’ Pension Scheme. They should enquire as to whether their employer has agreed to be subject to the scheme.
In circumstances where teachers are not eligible to join the TPS or where they have additional earnings from other employment, they should seek financial advice.

Personal Pensions
Unlike the TPS, a personal pension is not normally guaranteed and provides benefits on a money purchase basis. This means that the personal pension provider invests contributions to produce a capital sum at retirement. Such contributions are usually the teacher’s contributions only. That sum is used to purchase an annuity although 25 per
cent of the capital sum can be taken as tax-free cash.

Pension provision through a personal pension is, therefore, very much open to the fluctuations of the investment market, both during the period over which the contributions are made and at the time of purchasing the annuity.

**THE FIRM ADVICE OF THE UNION IS THAT TEACHERS WILL GENERALLY BE BETTER OFF JOINING, OR RE-JOINING, THE TEACHERS’ PENSION SCHEME.**

NUT members contemplating not making pension provision through the TPS should seek advice from the appropriate NUT regional office or, in Wales, the NUT Wales Office, NUT Cymru.

**Retirement Age**

Both men and women teachers can retire at age 60 and receive their teachers’ pension and lump sum subject to the minimum service requirements having been completed. Pension benefits are not payable before age 60, except in the case of early retirement on grounds of ill health or where a teacher retires under the premature retirement compensation arrangements or takes actuarially reduced benefits. Men and women can normally remain in service until the end of the term in which they attain their 65th birthday.

**Minimum Service Requirements**

The minimum service requirements for an annual pension and lump sum are as follows:

a) two years of pensionable service beginning on or after 6 April 1988; or

b) in the case of a teacher who was employed in pensionable service on 6 April 1988, and had been employed in pensionable service prior to that date, two years of pensionable service in all; or

c) in the case of a teacher employed in pensionable service before 6 April 1988 who does not qualify under (a) or (b) a total of 5 years’ pensionable service. (In a few special cases certain other kinds of pensionable employment can count towards the 5 years). Pensionable service is any period where superannuation contributions have been paid. Reckonable service is the number of years and days accumulated in the scheme which counts for pension benefits and can include any periods of pensionable part-time service, periods bought in by paying Past or Current Added Years and any service transferred into the Teachers’ Pension Scheme from another pension scheme.

**Calculation of Retirement Benefits**

A teacher’s pension and lump sum is calculated by reference to:

• the whole of the teacher’s reckonable service, calculated in years and days, and

• the teacher’s average salary over the best successive 365 days of reckonable service during the final three years.

Each year of reckonable service, with part years counting pro rata, provides an annual pension of \( \frac{1}{80} \)th of the final **average salary**, and a lump sum of \( \frac{3}{80} \)ths of the final **average salary**. Pensionable part-time service counts pro rata as reckonable service. A teacher retiring with forty years’ reckonable service will, therefore, receive a pension of half his or her average salary and a tax free lump sum of 11/2 times his or her average salary, whatever that salary is at the time of retirement.
The maximum amount of reckonable service that may be allowed for calculating the retirement benefits is 45 years and not more than 40 years undertaken before age 60 can count in the calculation of the pension. The lump sum payment can include more than 40 years undertaken before age 60 but may not exceed one and a half times the teacher’s average salary in respect of service before age 60.

**Payment of Retirement Benefits**
The pension benefits are paid by Teachers’ Pensions and a teacher must make a formal application, as the benefits are not paid automatically.

**Family Benefits**
In the event of a teachers’ death the scheme provides for benefits to be paid to a teacher’s widow or widower or financially dependant close relative and children, subject to certain conditions.
A teacher must have completed two or more years’ service to qualify for family benefits, unless service has been specifically bought in for that purpose.
A widow’s and children’s pension, and a financially dependant close relative’s pension is payable in respect of all service from 1 April 1972 undertaken by a married man or an unmarried teacher.
A widower’s and children’s pension is payable in respect of all service from 6 April 1988 undertaken by a married woman teacher.
If a teacher bought in service prior to those dates to count for family benefits such service would also count in the calculation of the benefits.
Where a teacher dies leaving children but no spouse, the children’s pension would be based on all of the teacher’s pensionable service, irrespective of how much service had been covered for family benefits.
Children’s pensions are paid for children under the age of 17, and for older children if they are in full-time education, certain kinds of training, or dependent because of ill health.
A widow’s, widower’s, or financially dependent close relative’s pension is calculated at the rate of 1/160th of the teacher’s average salary in respect of each year of service covered for family benefits.
Where there is a widow’s or widower’s pension in payment a children’s pension is calculated at the rate of 1/160th of the teacher’s average salary in respect of each year of service covered for family benefits if there are two or more dependent children, or 1/320th of the teacher’s average salary if there is one dependent child.
If there is no spouse’s pension in payment, a children’s pension is calculated at the rate of 1/120th of the teacher’s average salary in respect of each year of pensionable service if there are two or more dependent children, or 1/240th of the teacher’s average salary if there is one dependent child.
At the present time there is no pension payable to a teacher’s unmarried partner.

**Death Grant**
Where a teacher dies whilst in pensionable employment, or within a year of leaving pensionable service due to ill-health, but without being awarded ill-health retirement benefits, there is a death grant payable equal to the greater of:
• the teacher’s final average salary; or
• the increased lump sum payable had the teacher retired with ill-health retirement benefits at the date of death; or
• if death occurred after 1 April 1998, twice the teacher’s average salary.
Where a teacher dies after leaving pensionable service in other circumstances, having qualified for pension benefits, a death grant would usually be payable but based on actual reckonable service only.

Additional Pension Provision
Most teachers will not complete the maximum 40 years of reckonable service by age 60 and the scheme contains provisions for teachers to covers gaps in their service or to add to their pension entitlement.
Past Added Years - Teachers may buy-in any period after age 20 that does not count for pension purposes under the provision in the scheme for the purchase of Past Added Years. The service purchased provides the same guaranteed percentage of salary at retirement as other reckonable service and is protected against inflation. Each year bought in will increase the pension entitlement by 1/80th of the average salary and the lump sum by 3/80ths. Service bought in will count also towards family benefits and the qualifying period for pension benefits.
Not more than 15% of earnings, less the contributions already made to the Teachers’ Pension Scheme (i.e. 6% of salary), can be made in Past Added Years and/or AVCs.
AVCs - Teachers may pay Additional Voluntary Contributions (AVCs) to improve their pension provision. AVC benefits are provided on a money purchase basis. This means the additional benefits will be directly related to the investment return obtained and the price of buying an annuity (pension) at retirement. The accumulated fund can be used only to purchase an annuity.
AVCs may be invested as follows:
• through Prudential which administers the scheme AVC arrangement;
• through any financial institution, which offers a suitable facility - this is known as a free standing AVC. Free standing AVCs are independent of the Teachers’ Pension Scheme.
In addition AVCs may be used to provide additional death in service benefits and/or dependents’ benefits.
Not more than 15% of earnings, less the contributions already made to the Teachers’ Pension Scheme (i.e. 6% of salary), can be made in AVCs and/or Past Added Years.
Stakeholder Pensions - Teachers earning less than £30,000 per annum may improve their pension provision through a Stakeholder pension. Contributions to a Stakeholder pension are made on a money purchase basis. This means the additional benefits will be directly related to the investment return obtained and the price of buying an annuity (pension) at retirement.
Teachers can pay contributions of up to £3,600 per annum, which is equivalent to a 12 per cent contribution on a salary of £30,000 per annum, or 18 per cent on a salary of £20,000 per annum.
Payments to a Stakeholder pension can be made in addition to any Past Added Years or AVC contributions.
Stakeholder pensions allow a teacher to take up to 25 per cent of the accumulated fund as a tax-free lump sum. A Stakeholder pension can be drawn at any time between age 50 and age 75.

Stakeholder pensions are available:
- through the Teachers’ National Stakeholder Pension Scheme, agreed by the teachers’ associations and operated by Prudential under the TUC Stakeholder Scheme;
- through any financial institution which offers such pensions.

**Pensions Increase**

Once a teacher has retired the pension is increased annually to take account of rises in the cost of living. The pensions increase applies to both the teacher’s pension and any widow’s, widower’s, dependant’s and/or children’s pension payable. If, however, a teacher has taken early retirement before age 55 there is no pensions increase payable on either the accrued pension or any enhancement pension, until the teacher reaches age 55. When that teacher reaches age 55, there would be a catching up exercise and the pension would be increased to take account of all the rises in the cost of living between the teacher retiring and reaching age 55. A teacher under age 55, who retires early due to ill health and receives ill-health retirement benefits, would have his or her pension index-linked from the outset.

**Further Information**

Further advice and guidance on all matters relating to the scheme can be obtained from the appropriate regional office or, in Wales, from the NUT Wales Office, NUT Cymru.

A general guide to the scheme, ‘Your Pension - A Guide to The Teachers’ Pension Scheme England and Wales’, is available from Teachers’ Pensions. That guide gives details also of other leaflets, which are available from Teachers’ Pensions covering a wide range of issues.

The Union is producing a number of leaflets which will be available through the Union’s website, [www.teachers.org.uk](http://www.teachers.org.uk), and in leaflet form. Advice and guidance is available also from the appropriate regional office or, in Wales, the NUT Wales Office, NUT Cymru.