

Flexibilities

April 2015



Introduction

The Teachers' Pension Scheme has changed from April 2015. The new arrangements saw the introduction of career average as well as final salary arrangements. Members will be able to choose from a range of flexibilities depending on which arrangements they are in. Some of the flexibilities will only be available to members within the career average arrangement so it will be important to know what member type each employee is.

The flexibilities available to members include Additional Pension Benefits, Faster Accrual, Buy Out of the standard actuarial adjustment of 3%. Our factsheet aims to help you understand the range of flexibilities available and which member type can access them and when.

Additional Pension

Additional pension will be an option for both members of the final salary and career average arrangements. Any elections made whilst a member was in final salary will be unchanged and where they are making payment by deduction from salary, that arrangement will continue.

Additional pension will continue to be available in amounts of £250 per annum. It can either be bought for the member only or to provide member and dependants' pensions.

Once bought, the pension is revalued up to the date of retirement.

Additional pension purchased in the career average arrangement will reflect the Normal Pension Age (NPA) of a member in that arrangement.

Who can purchase additional pension?

A protected member will continue to be able to purchase additional pension in the final salary arrangement and any existing elections purchased or being purchased in final salary will be honoured.

A tapered member will continue to be able to purchase additional pension under the final salary arrangement, but once he reaches his transition date and moves to career average he'll only be able to purchase further additional pension in that arrangement, although any existing elections under final salary will be honoured.

A transition member will now be able to purchase additional pension under the career average arrangement and any existing elections will be honoured.

New starters will now be able to buy additional pension under career average.

Additional pension will be re-valued by factors provided by HM Treasury, it will not attract the in-service indexation that the main career average or faster accrual benefits receive.

What is faster accrual?

Faster accrual is only available to members in the career average arrangement. In career average, the standard accrual rate is 1/57th of pensionable earnings. However, a member can elect to purchase a faster accrual rate by paying higher contributions, which will build up a higher pension for a particular Scheme year.

Elections are required for each Scheme year which runs from 1 April to 31 March and the election must be received by Teachers' Pensions in the year prior to the year for which the election is to take effect.

Transition members will need to elect within one month of joining career average if they wish to purchase faster accrual for the scheme year 1 April 2015 to 31 March 2016.

The accrual rates a member can elect to purchase are: 1/55th, 1/50th or 1/45th.

An example of how faster accrual might work
A new starter has earnings for 1 April 2015 to 31 March 2016 at £30,000, so for the first year they are in career average, if they do nothing, they will earn a pension for that year of:

$$£30,000 \times 1/57 = £526.31.$$

To build up a higher pension they could elect to pay for faster accrual and select from the range of accrual rates above. The table below shows the amount of pension they would build up in a single year if they selected to pay for the faster accrual rate compared to the standard rate of 1/57th.

Accrual Rate Pension bought in one year
Extra pension from higher accrual

1/57th (standard)	£526.31
1/55th	£545.45
1/50th	£600.00
1/45th	£666.67

Who can apply for faster accrual?

A fully protected member who will remain in final salary can't apply for faster accrual.

A tapered member will only be able to purchase faster accrual once they pass their transition date and are in the career average arrangement;

A transition member will be able to apply to purchase faster accrual

New starters will be able to purchase faster accrual and will have to apply within one month of entering pensionable employment.

What is the process once a member completes a faster accrual election?

Once a member completes a faster accrual election form you will need to confirm that the applicant will be in pensionable employment for the coming scheme year, which the faster accrual application applies to. Please provide the full time equivalent salary figure that the member will receive at the start of the forthcoming scheme year which may not be the same as the current year.

Any faster accrual purchased by a member will form part of their accrued pension in the career average arrangement and will attract in-service indexation (while the member is in active service), which will be calculated using factors provided by HM Treasury + 1.6%.

What is buy out?

If a member decides to retire before their NPA and takes actuarial adjusted benefits (AAB) their benefits are reduced by approximately 5% for each year that the benefits are taken early.

Where a member has an NPA over 65 in the career average arrangement and elects to take their benefits before their NPA, the reduction that would apply between 65 and their NPA is at a lower rate of 3% for each year.

Buying out the actuarial adjustment

Members in career average have the chance to buy out the actuarial adjustment for one, two or three years, depending on the number of years between 65 and their career average NPA.

If a member's NPA is 66 they'll be able to buy out 1 year's actuarial adjustment, whereas if their NPA is 67 they'll be able to buy out two years and if their NPA is 68 they'll be able to buy out three years actuarial adjustment.

Members only have one opportunity to buy out the reduction and this must be done within six months of first entering career average. Contributions towards the buy out option last throughout a member's career, unless they revoke their election. Members need to understand that this is a long term commitment and that the rates they will be required to pay will change throughout their career.

The buy out option is only available to transition members, new starters and tapered members (once they have passed their transition date and entered the career average arrangement). Protected members can't elect for the buy out option.

If a member returns to teaching after an earlier period of service in the career average arrangement and has taken their benefits, or had a break of more than five years, they cannot continue to buy out the adjustment.

If a member has a break of five years or less then the buy out election will continue, unless the member decides to revoke their election.

If a member returns to teaching and enters the career average arrangement for the first time, they can elect to buy out the actuarial adjustment as long as they apply within six months of entering career average.

If a member revokes the buy out election, they'll only receive the buy out adjustment in respect of the benefits accrued during the purchase period. Any benefits they accrue after this will have the normal actuarial adjustment rate applied if the member takes early retirement.

If a member dies in service while they're purchasing buy out, any benefits paid to their dependants will not be affected, nor will any buy out contributions be refunded. Similarly if a member continues to work until their NPA, their benefits will not be adjusted nor will their buy out contributions be refunded.

Maximum benefits

There's an overall limit to the total value of all flexible benefits that a member can buy while in career average. The current limit is £6500 and includes the value of any faster accrual, additional pension or buy out of the actuarial adjustment in 2015 - 2016.

Any additional pension purchased by a member in the final salary arrangement is not included in the overall limit applicable to career average and will still be subject to the existing final salary limits.

The additional benefits bought by members are taken into account when assessing their overall benefits against the annual and lifetime allowances.

Members must seek independent financial advice before electing for any of the flexibilities.