Annex 1 - Worked examples for members of the Teachers' Pension Scheme

January 2021

Changes to the Pension Input Period (PIP)

The existing PIP for the Teachers' Pension Scheme with the scheme year - 1st April to 31st March. However, the Chancellor announced in his 2015 Summer Budget that with effect from 2016/17, ALL pension schemes would have to re-align their PIPs to coincide with the tax year - 6th April to 5th April.

To do this, a transitional approach was adopted in the 2015/16 tax year. All PIPs that were open on 8 July 2015 were treated as having ended that day and the next PIP ran from 9 July 2015 to 5 April 2016.

For the Teachers' Pension Scheme, this meant that we had the following PIPs in 2015/16:

1. Pre-alignment PIP for the period 1 April 2015 to 8 July 2015 = 99 days
2. Post-alignment PIP for the period from 9 July 2015 to 5 April 2016 = 272 days

In order to calculate the value of pension accrual within the Teachers' Pension Scheme for the 2016.16 year, we assess the increase in a member's benefits over the period from 1 April 2015 to 5 April 2016 inclusive. We use a pro-rata approach to allocate the increase to each of the pre-alignment and post-alignment PIPs.

The examples below illustrate how these changes impact different types of members. In these examples the total opening value of the individual's rights at the start of the combined periods is up rated by 2.5% (the appropriate percentage for the 2015/16 tax year), when calculating the value of accrual.

NPA 60 (Normal Annual Allowance)

We shall take an example of a teacher who has accrued 20 years and 100 days pensionable service at the PIP 'Opening' date of 1 April 2015. Their pensionable salary as at this date was £110,000 and that the member only accrued pension benefits in the Teachers' Pension Scheme.

The value of their pension savings for Annual Allowance purposes would be:

Years	Days	Accrual		Salary		Pension	+	Lump sum (3 x Pension)
20	100	1/80	x	£110,000	=	£27,876.71		£83,630.14

AA Opening Value	x	[(16 x £27,876.71) + £83,630.14] x 1.025 =		£542,899.00 A

(12/2015)

At the point of closure of the second PIP on 5 April 2016, the teacher had a salary increment such that their pensionable salary was £120,000 and accrued an additional 1 year 6 days' service. The 'Closing' value of their pension savings is:

Years	Days	Accrual		Salary		Pension	+	Lump sum (3 x Pension)
21	106	1/80	x	£120,000	=	£31,935.00		£95,805.00

AA Opening Value	x	[(16 x £27,876.71) + £83,630.14] x 1.025 =		££606,765.00 B

The increase in pension savings during the period	**B - A Accrual**	**=**	**£63,866.00 C**

However, we must apportion (C) between the pre- and post-alignment PIPs as follows:

The post alignment period is 272 days, therefore we multiply	**(C) x 272/371**	**=**	**£46,823.59 D**

The relevant period for pension accrual in the Teachers' Pension Scheme in 2015/16 is 371 days.

The pre alignment amount is now simply a matter of subtracting	**(C) - (D)**	**=**	**£17,042.41 E**

Taking the pre-alignment PIP first, we have an Annual Allowance of £80,000 which we compare to the value of (E), which is the Pension Input Period Amount (PIA) for the pre-alignment PIP.

Annual Allowance	=	£80,000.00
Minus PIA in (E)	-	£7,042.41
	=	£62,957.59

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Since the accrual is less than the Annual Allowance of £80,000 for the pre-alignment mini PIP, no tax charge is due. As the amount of unused Annual Allowance is more than £40,000, the member can carry forward the maximum £40,000 of this Annual Allowance to the second mini PIP, i.e. the post-alignment PIP, together with any previous unused Annual Allowance.

In this post-alignment PIP we find that the pension accrual is higher than the Annual Allowance Carried forward from the pre-alignment mini PIP.

Carry forward Annual Allowance	=	£40,000.00
Minus PIA in (D)	-	£46,823.59
	=	£6,823.59

In these circumstances, the member may be able to utilise any unused Annual Allowance from the previous three full tax years in order to reduce or avoid the tax charge that would otherwise be payable.

Assuming the member had no unused carry forward available, a tax charge would be payable on the £6,823.59 excess accrual at the member's marginal rate of income tax.

NPA 65 (Normal Annual Allowance)

For those members who have an NPA of 65 the calculation follows the same routine as above,
But with a different 'Multiplier' and rate of 'Accrual' to reflect the fact that there is no automatic lump sum accruing to members in the NRA65 section and the different rate of pension accrual.

Years	Days	Accrual		Salary		Pension	
20	100	1/60	x	£110,000	=	£37,169.00	
AA Opening Value			x	(16 x £37,169.00) x 1.025 =		£609,572.00	A

Years	Days	Accrual		Salary		Pension	
21	106	1/60	x	£120,000	=	£42,580.00	
AA Closing Value			x	(16 x £42,580.00) =		£681,280.00	B

The increase in pension savings during the period	B - A	=	£71,708.00	C

However, we must now apportion (C) between the pre- and post-alignment PIPs:

The post alignment period is 272 days, therefore we multiply	(C) x 272/371	=	£52,573.00	D

The relevant period for pension accrual in the Teachers' Pension Scheme in 2015/16 is 371 days.

The pre alignment amount is now simply a matter of subtracting	(C) - (D)	=	£19,135.00	E

Taking the pre-alignment mini PIP first, we have an Annual Allowance of £80,000 which we compare to the value of (E).

Carry forward Annual Allowance	=	£80,000.00
Minus PIA in (E)	-	£19,135.00
	=	**£60,865.00**

Since the accrual is less than the Annual Allowance of £80,000 for the pre-alignment mini PIP, no tax charge is due. Also, as the amount of unused Annual Allowance is more than £40,000, the member can carry forward £40,000 of this Annual Allowance to the second mini PIP, i.e. the post-alignment PIP, together with any previous unused Annual Allowance.

In the post-alignment PIP we find that the pension accrual is higher than the Annual Allowance Carried forward from the pre-alignment mini PIP:

Carry forward Annual Allowance	=	£40,000.00
Minus PIA in (D)	-	£52,573.00
	=	**-£12,573.00**

In these circumstances, the member may be able to utilise any unused Annual Allowance from the previous three full tax years in order to reduce or avoid the tax charge that would otherwise be payable.

Assuming the member had no unused carry forward available, a tax charge would be payable on the £12,573.00 excess accrual at the member's marginal rate of income tax.

1.4 Career average (Normal Annual Allowance)

For those new members who have joined on or after 1 April 2015, they will have career average only service. Assuming that the same member joined on 1 April 2015, because the 'Opening' PIP period is also 1 April 2015, there will be no service accrued, the calculation is therefore:

Years	Days	Accrual		Salary		Pension	
0	0	1/57	x	£110,000	=	£0.00	
AA Opening Value			x	(16 x £00.00) x 1.025	=	£0.00	A

(assume for illustration purposes CPI 1.4% plus in service revaluation of 1.6%)

Years	Days	Accrual		Salary		Pension	
1	1	1/57	x	£120,000	=	£2,174.00	
0	5	1/57	x	£120,000	=	£29.00	
AA Closing Value			x	16 x (£2,174.00 + £29.00)	=	£35,248.00	B

(assume for illustration purposes CPI 1.4% plus in service revaluation of 1.6%)

The increase in pension savings during the period	B - A	=	£35,248.00	C

However, we must apportion (C) between the pre- and post-alignment PIPs:

The post alignment period is 272 days, therefore we multiply	(C) x 272/371	=	£25,842.00	D

The relevant period for pension accrual in the Scheme in 2015/16 is 371 days.

The pre alignment amount is now simply a matter of subtracting	(C) - (D)	=	£9,406.00	E

Taking the pre-alignment mini PIP first, we have an Annual Allowance of £80,000 which we compare to the value of (E).

Carry forward Annual Allowance	=	£80,000.00
Minus PIA in (E)	-	£9,406.00
	=	£70,594.00

Since the accrual is less than the Annual Allowance of £80,000 for the pre-alignment mini PIP, no tax charge is due. Also, as the amount of unused Annual Allowance is more than £40,000, the member can carry forward £40,000 of this Annual Allowance to the second mini PIP, i.e. the post-alignment PIP, together with any previous unused Annual Allowance.

In this second period we find that we do not have an Annual Allowance charge as the value of pension accrual is less than the £40,000 Annual Allowance carried forward from the pre- alignment mini PIP:

Carry forward Annual Allowance	=	£40,000.00
Minus PIA in (D)	-	£25,842.00
	=	£14,158.00

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Transitional members (Normal Annual Allowance)

Where a member is a 'transitional' member, then both the final salary and career average components combined must be measured against the Annual Allowance. Although there is no further service accrual in the final salary section, there will be a salary link.

If we use the Opening Value we calculated in example (1) above:

NPA 60 benefits deferred on 31 March 2015	Opening Value	=	£529,657.00	A1

If a member transitioned to the career average scheme on 1 April 2015, they would have an opening value of £0.00 in the career average scheme as they have not so far accrued any benefits in this scheme.

Career average benefits on 1 April	Opening Value	=	£0.00	A2

Both the NPA 60 and career average opening values need to be combined to aggregate the 'Opening' value for the PIP.	NPA 60	=	£529,657.00	A1
	Career average	-	£0.00	A2
	Combined A1+A2	=	£529,657.00	
	x 1.025	-	£542,899.00	A3

When we come to the 'Closing' value, using the figures we have used in example (3) for the career average accrual, we find that the following will have occurred:

For the NPA 60 deferred benefits adjusted for the salary link.	NPA 60	=	£529,657.00	A1
	Slary Increase		120,000/ 110,000	A2
	Closing Value	=	£577,808.00	B1
For the career average benefits from example (3)	Closing Value	=	£35,248.00	B2
	Combined B1+B2	=	£613,056.00	B3
The increase in pension savings during the period	B3 - A3	=	£70,157.00	C

However, we must apportion (C) between the pre- and post-alignment PIPs:

The post alignment period is 272 days, therefore we multiply	(C) x 272/371	=	£51,436.00	D

The relevant period for pension accrual in the Scheme in 2015/16 is 371 days.

The pre alignment amount is now simply a matter of subtracting	(C) - (D)	=	£18,721.00	E

Taking the pre-alignment mini PIP first, we have an Annual Allowance of £80,000 which we compare to the value of (E).

Carry forward Annual Allowance	=	£80,000.00
Minus PIA in (E)	-	£18,721.00
	=	£61,279.00

Since the accrual is less than the Annual Allowance of £80,000 for the pre-alignment PIP, no tax charge is due. As the amount of unused Annual Allowance is more than £40,000, the member can carry forward £40,000 of this Annual Allowance to the second mini PIP, i.e. the post-alignment PIP, together with any previous unused Annual Allowance.

In the post-alignment mini PIP the pension accrual is higher than the Annual Allowance carried forward from the pre-alignment mini PIP, the member may, therefore, have an Annual Allowance charge.

Carry forward Annual Allowance	=	£40,000.00
Minus PIA in (D)	-	£51,436.00
	=	-£11,436.00

In these circumstances, the member may be able to utilise any unused Annual Allowance from the previous three full tax years in order to reduce or avoid the tax charge that would otherwise be payable.

Assuming the member had no unused carry forward available, a tax charge would be payable on the £11,436.00 excess accrual at the member's marginal rate of income tax.