Buy out

March 2024

What is Buy Out?

In the career average scheme, your Normal Pension Age (NPA) is either your State Pension age or 65, whichever is the later date. If you plan to retire before your NPA, this is known as taking Actuarially Adjusted Benefits (AAB) and your benefits will be reduced for each year that they are taken early.

In career average, you can buy out that actuarial adjustment for up to three years, depending on the number of years between 65 and your career average NPA. You'll pay higher contributions throughout your career, so you need to appreciate that this is a long term commitment. You also need to be aware that the rates could change following the next Scheme valuation.

For example: if your career average NPA is 66 you'll be able to Buy Out up to one year's actuarial adjustment; if your NPA is 67 you'll be able to Buy Out up to two years; and if your NPA is 68 you'll be able to Buy Out up to three years.

You only have one opportunity to Buy Out this reduction and your application must be made within six months of first entering career average and you need to be in pensionable service to make an application.

Buy Out and Transitional Protection

In 2015 the career average scheme was introduced, along with new flexibility options, including Buy Out. As of 1 April 2022 all active members were moved to the career average scheme.

If you're affected by the Transitional Protection changes and your service has been rolled back into the final salary scheme for the remedy period (1 April 2015 -31 March 2022), this means you entered the career average scheme for the first time on 1 April 2022.

As you're a new entrant from that date and if you're an unprotected or tapered member, you may be eligible to purchase Buy Out, backdated to 1 April 2022. If you're eligible and wish to apply for Buy Out, you must apply using our Flexibilities form by 31 March 2024. More information can be found on our rollback factsheet.

If you already have a Buy Out flexibility, we'll be contacting you with your options as Buy Out can no longer exist in the remedy period due to rollback. If you'd like your Buy Out to be re-instated from joining the career average scheme on 1 April 2022, you must reapply by 31 March 2024 and this will be backdated.

Important information

Is there an overall maximum value you can purchase of Buy Out?

In the career average scheme there is a maximum value amount of extra pension that can be purchased. For the current maximum please refer to the Updates section of our website. For further details on the other flexibilities available, read our 'Increasing your Pension Benefits' factsheet.

What if I pass away before taking my retirement benefits?

If you die while purchasing Buy Out, any benefits paid to your family will not be affected, they will still be based on your NPA, nor will any Buy Out contributions be refunded. If you continue to work until your NPA or beyond, or retire on Ill-health grounds, your benefits will not be adjusted nor will your Buy Out contributions be refunded.

What happens if I were to retire before age 65 or revoke my election?

With this flexibility you're 'buying out' the the actuarial adjustment for up to three years, depending on the number of years between 65 and your career average normal Pension Age.

Therefore, If you retire before age 65, you may not receive the full effect of your Buy Out election. This is because your benefits will be subject to the normal Actuarially Adjusted Benefits (AAB) reduction.

If you revoke the Buy Out election, you'll only receive the Buy Out adjustment in respect of those benefits earned while you were paying the additional contributions. If you take Early Retirement any benefits you've accrued after revoking the election will have the normal actuarial adjustments applied.

How is your Buy Out contribution calculated?

To calculate Buy Out contribution, Teachers' Pensions will look at:

1. What was your age (last birthday, so whole years) when you entered the career average scheme?
2. How many years are being bought out?

We'll then use this information to determine the relevant Buy Out factor and multiply this by the number of years being bought out.

Example 1

Will is 38 years old when he enters the career average scheme. His NPA is 67, so Will can opt to Buy Out 1 or 2 years.

The factor for 38 years of age is 0.86. As Will wants to buy out both of the years to his NPA the calculation is: 0.86 x 2 = 1.72.

Will must pay regular contributions of 1.72% of his pensionable earnings.

Example 2

Phil is 60 years old when he enters the career average scheme. Phil's NPA is 65 years and 9 months, so the Buy Out can only cover 9 months.

The factor for 60 years of age is 0.93. As Phil's Buy Out only covers 9 months the calculation is: 0.93 x 9/12 = 0.70.

Phil will pay regular contributions of 0.70% of his pensionable earnings.

Example 3

Hilary is 39 years old when she enters the career average scheme. Hilary's NPA is 67 years and 2 months, so she can opt to Buy Out 1 year, 2 years or 2 years and 2 months.

The factor for 39 years of age is 0.86. As Hilary wants to take the full 2 years and 2 months of Buy Out the calculation is: 0.86 x 2 and 2/12 (or 0.86 X 26/12) = 1.86.

Hilary will pay regular contributions of 1.86% of her pensionable earnings.

Example 4

Carlton is 26 years old when he enters the career average scheme. His NPA is 68 years, so Carlton can opt to Buy Out 1, 2 or 3 years.

The factor for 26 years of age is 0.84. As Carlton wants to take only 2 years of Buy Out the calculation is: 0.84 x 2 = 1.68.

Carlton will pay regular contributions of 1.68% of his pensionable earnings.

How will Buy Out applications be processed?

- You'll need to complete the flexibilities form on My Pension Online. One form covers all three flexibilities and you're only required to complete the section for which you're applying. You'll only see the options which are available to you and an eligibility check will take place to make sure you're only applying for flexibilities within your limit.
- Online applications are sent to your employer to confirm your employment.
- Teachers' Pensions will then process your request.

We'll inform:

- The employer, if the request has been accepted / rejected. If accepted the employer will provide the percentage deduction and confirm dates (for Faster Accrual and Buy Out) and lump sum or monthly amount for Additional Pension.
- You, if the request has been accepted /rejected and indicate the reasons why.

Where there is any difference between the legislation governing the Teachers' Pension Scheme and the information in this factsheet, the legislation will apply.

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