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Contracting-out, NI and GMP



Changes to the State Pensions, National Insurance contributions, the payment of CEPs and the impact of Guaranteed Minimum Pensions on pensions increases.

Contracting-Out and Contracted-Out Scheme details

The Teachers' Pension Scheme was accepted for the purposes of contracting-out of SERPS (State Earnings Related Pension Scheme) and latterly S2P (State Second Pension) between 6 April 1978 and 5 April 2016. By contracting-out of SERPS and / or S2P the Teachers' Pension Scheme agreed to pay you a guaranteed minimum pension based on the pension you would have received had you remained in the State additional pension scheme during the period of contracting-out. This guaranteed minimum pension is paid to you as part of your teacher's pension.

The abolition of contracting-out for all registered pension schemes came in to effect from 6 April 2016. From this date forward the Teachers' Pension Scheme ceased to be contracted-out.

The following details may still be useful, however, if you wish to consider transferring your benefits in the future:

- ECON number E3900002R; and
- SCON number S2730011H
- While not related to contracting-out as such, the following HMRC registration numbers are also required for pension transfer purposes:
 - For transfers relating to the Teachers' Pension Scheme (2010) - the Final Salary arrangement - HMRC registration 00328821RM; and
 - For transfers relating to the Teachers' Pension Scheme (2015) - the Career Average arrangement - HMRC registration number 00810719RB.

The introduction of the new State Pension and the

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changes to National Insurance contributions from 6 April 2016

Up to 5 April 2016, the Government provided two state pensions, as follows:

- The Basic State Pension. The full amount is currently £115.95 per week (2015/16) for a single person.
- The Additional State Pension, which is earnings related. This additional state pension was called the State Earnings Related Pension Scheme (SERPS) between 1978 and 2002, and the State Second Pension (S2P) between 2002 and 5 April 2016.

As the Teachers' Pension Scheme was contracted-out of the Additional State Pension, the Scheme provides the equivalent of the Additional State Pension as part of the teacher's pension. Hence you will not have an Additional State Pension for any period you were in the Teachers' Pension Scheme up to 5 April 2016.

If you were a member when the scheme was contracted-out you paid a lower rate of National Insurance (as did your employer), which was an incentive to employers (and employees) to contract-out of the Additional State Pension.

From 6 April 2016, with the Scheme no longer being contracted-out, National Insurance contributions for employees increased by 1.4% and for employers by 3.4%.

Contribution Equivalent Premiums (CEPs) paid to the State

CEPs are State Scheme premiums which effectively buy a member back into the old Additional State Pension in respect of those members who don't have sufficient service to qualify for a pension in the Teachers' Pension Scheme. This is done by means of a CEP.

The Teachers' Pension Scheme has up to 26 weeks in which to notify HMRC of any pension scheme member who withdraws from the Scheme with less than 2 years' pensionable service. The TPS then must pay a CEP to re-instate the person in the old Additional State Pension.

This applies chiefly to members who have completed less than 2 years' pensionable service with an element of pensionable service in the TPS on or before 5 April 2018.

It doesn't apply in relation to additional service after retirement as members who do not go on to complete the required 1 year of pensionable service to qualify for a further teacher's pension have to take an annuity - a small pension based on the actuarial equivalent of their contributions.

Pension increases and Guaranteed Minimum Pensions for teachers attaining State Pension Age before 6 April 2016

As a consequence of the Teachers' Pension Scheme being contracted-out of the Additional State Pension, many members of the Scheme will have accrued a Guaranteed Minimum Pension (GMP) between 6 April 1978 and 5 April 1997*. (Although this will not be the case for married woman who made an election to pay reduced rate National Insurance). In return for lower rate National Insurance contributions, members accrued an entitlement to a GMP which was broadly equivalent to the State Earnings Related Pension Scheme (SERPS). This GMP forms part of a teacher's pension from the Teachers' Pension Scheme (if applicable).

Before 6 April 2010, the GMP age and State Pension Age (SPA) were 60 for women and 65 for men. Since then, while the GMP age has remained at 60 for women and 65 for men, the SPA has changed for women born after 5 April 1950 and men born after 5 December 1953, so that the State Pension can only be claimed from a later age.

An entitlement to a GMP will potentially affect the amount of indexation applied to your teacher's pension. Teachers' Pensions is generally informed of the GMP by HMRC at your SPA, which means that the GMP may need to be retrospectively applied from an earlier GMP age. In the interim period between GMP age and SPA (which is more common for female members) full indexation is applied to the teacher's pension in line with Pensions (Increase) Act 1971. When HMRC informs Teachers' Pensions of the GMP at your SPA, Teachers' Pensions will apply increases to GMP



accrued on or after 6 April 1988, up to a maximum of 3% (with the State picking up any difference if the increase is above 3%). When SPA is reached the increase applicable to GMP accrued before 6 April 1988 (and the post 5 April 1988 difference where that increase is above 3%) is paid by the State via increases to your State Pension.

Hence, if you defer your State Pension, please inform Teachers' Pensions as this may affect the increases applied to your pension. We require a copy of the confirmation from DWP's Pensions Service before we can adjust your Teachers' Pension to provide for full indexation.

Please note there are instances where your State benefits will be reduced if you have a GMP and you attain GMP Age (60 for women, 65 for men). This will apply to any entitlement to a widowed mother's allowance, widowed parent's allowance or a widow's pension where you are also entitled to a GMP. Similarly, any entitlement to a widower's benefit, a surviving same sex spouse's benefit, or surviving civil partner benefits from the State will be affected from GMP age.

* From 6 April 1997 a simpler Reference Scheme Test was introduced which evaluated the overall level of benefits being provided by the scheme rather than an individual guarantee for each member. If a scheme passed the Reference Scheme Test it could remain contracted-out, which was the case for the Teachers' Pension Scheme until the cessation of contracting-out for all pension schemes from 6 April 2016.

Pension increases and Guaranteed Minimum Pensions for teachers attaining State Pension Age on or after 6 April 2016 and before 6 December 2018.

As a result of the Pensions (Increase) Act 1971, pensions paid by the Teachers' Pension Scheme are indexed in line with the cost of living.

If you were contracted out at any point between 6 April 1978 and 5 April 1997, you may have an element of your pension from the Teachers' Pension Scheme which is known as the Guaranteed Minimum Pension (GMP). Certain elements of the GMP are not increased when a person reaches State Pension Age as the Government has paid increases on the pre 1988 GMP and the post 1988 GMP above 3% (if applicable) as part of the Additional State Pension.

Please note that if you have already attained State Pension Age before 6 April 2016, there will be no change to the existing system of providing pensions increase. Increases to the pre 1988 GMP and any increase above 3% in respect of the post 1988 GMP will continue to be provided by the Government, in the same way it was applied through the previous Additional State Pension. Any future increase involving a GMP may be payable through the Scheme and the State.

If you reach State Pension Age between 6 April 2016 and 5 December 2018, the Government announced that public service schemes such as the Teachers' Pension Scheme will provide full indexation on the full amount of the member's pension payable for life. This includes periods which were formally indexed by the State e.g. pre 1988 GMPs. Hence, for this group of members, all indexation (where applicable) will be provided by the Teachers' Pension Scheme.

Pension increases and Guaranteed Minimum Pensions for teachers attaining State Pension Age on or after 6 December 2018

If you reach State Pension Age on or after 6 December 2018, as there will no longer be any Additional State Pension to provide increases on the pre 1988 GMP or on the post 1988 GMP above 3% per annum, we can only confirm, at the moment, that the Teachers' Pension Scheme will continue to be responsible for providing increases on the post 1988 GMP up to a maximum of 3%.

The Government announced its plan to consult on how best to address the joint issues of indexation and ensuring equal payment for public service pension scheme members who reach State Pension age on or after 6 December 2018. The Government expects to launch this consultation in summer 2016 and will take into consideration the generosity of the new State Pension whilst seeking to balance cost, simplicity and fairness in any outcome.

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