



# Talking point

November 2011

Staying informed about the issues important to you

## Introduction

On 2 November 2011, the Government published a paper, 'Public Service Pensions: good pensions that last', setting out its views on public service pensions reform.

The paper explains the reasons why the Government believes reform of public service pensions is necessary and outlines some of the proposed changes. Currently the changes are applicable to England and Wales.

## Why are pensions changing?

Changes to Public Service Pensions are being made, according to the Government, because people are living longer, and these extra years in retirement mean that the cost of providing pensions is rising.

The Government has a duty to make sure that the cost of public service pensions is sustainable in the long term. It must also share these costs fairly between public service workers and other taxpayers.

In March 2011 an independent report was published on public service pensions led by Lord Hutton, the former Secretary of State for Work and Pensions. The report set out some recommendations which have been accepted by the Government as a basis for discussion and possible implementation by 2015.

## KEY TOPICS

**Are existing benefits protected?**

**Preferred design for new schemes**

**Are there any changes that have already happened or in the pipeline?**

**What might the proposals mean in practice?**



## Are existing benefits in the Teachers' Pension Scheme protected?

The Government has stated that any benefits already earned by teachers will be protected and that they can be assured that:

- Entitlement for benefits (pension and lump sum) already earned will be calculated using the final salary when a teacher retires or leaves the scheme, not the salary when the current scheme closes.
- Teachers with ten years or less to their pension age on 1 April 2012 will see no change to when they retire, nor any decrease in the amount of pension they receive at their current normal pension age.
- Teachers will still be able to choose the age at which they retire – they are not being forced to work to their State Pension Age. Teachers can draw the full pension benefits they have earned under the existing Teachers' Pension Scheme at their current normal pension age. However, they may choose to work longer and earn more pension benefits under the proposed new scheme.
- Teachers will continue to earn benefits in the current scheme until the new scheme is introduced.

## Preferred design for new schemes

For members of the Teachers' Pension Scheme, the Government's preferred design for the new arrangements is built on a number of factors, including:

- A Career Average Revalued Earnings (CARE) pension scheme (in contrast to the current final salary scheme).
- Pension benefits will be earned at a rate of 1/60ths of pensionable earnings each year.
- Benefits will increase each year that teachers are working, in line with increases in earnings.
- Normal pension age will be linked to State Pension Age or age 65, whichever is higher.
- Benefits earned by leavers will increase by rises in the Consumer Price Index from the date of leaving until retirement.
- Providing members with the option at retirement to convert £1 of annual pension into a £12 one-off lump sum payment.
- Ill-health, death and survivors benefits to match those currently provided.

Although the Government has set out its preferred design as outlined above this does not represent the final position, as further discussions are taking place between the Government and the unions. At this stage it is too early to set out how individual teachers will be affected.

## Are there any changes that have already happened or in the pipeline?

For inflation increases due on pensions in payment, the Government has replaced the Retail Price Index with the Consumer Price Index from April 2011.

Also, teachers' average contributions are due to increase by 3.2% of salary – this will be gradually phased in over the three years from 2012-14, with steeper rises applying to relatively higher paid teachers. These proposed increases may be subject to change.

## What might the proposals mean in practice?

The following case study is based on an example provided by HM Treasury. It is only intended to provide a broad indication of the potential impact of the Government's proposals.

## Case Study

Rachel, a primary school teacher, age 42, is a member of the Teachers' Pension Scheme. She earns £32,000 a year and pays 6.4% towards her pension.

When the scheme changes:

She is age 45.

Has worked for 23 years.

If the scheme didn't change she would get £15,200 a year when she retires at age 60.

### OPTIONS

#### Work longer

If Rachel decided to work to 67 she could increase her pension to £20,200 a year.

#### Keep expected pension amount

If Rachel wanted to keep the pension amount she was expecting before the scheme changed she would need to work a further two years to age 62.

#### Leave

If Rachel decided to leave the scheme now and buy herself a personal pension to match the amount she would have earned in the scheme between now and age 60 she would need to pay 38% of her salary each year.

## About Wesleyan for Teachers

Wesleyan for Teachers specialises in providing financial advice to the teaching profession. All of our Financial Consultants are trained to understand the career paths and financial needs of teachers including the Teachers' Pension Scheme. Over the years, we have helped thousands of education professionals plan for their financial future.

We offer products selected with teachers in mind; enabling us to tailor the solution that's right for you. We provide specialist advice on the following areas: regular savings; mortgages; income protection; investments; critical illness cover; life assurance; pensions, including the Teachers' Pension Scheme; retirement planning and personal loans.

**To arrange a no obligation financial review with your local Financial Consultant:**

**Call: 0800 316 7183 or**

**Email: [teachers@wesleyan.co.uk](mailto:teachers@wesleyan.co.uk)**