Teachers’ Pension Scheme – Proposed Final Agreement

1. This document sets out the proposed final offer on the scheme design for the reformed Teachers’ Pension Scheme to be introduced in 2015. The Government have made clear this sets out their final position on scheme design, which unions have agreed to take to their Executives as the outcome of negotiations on scheme design. This includes a commitment to seek Executives’ agreement to the cessation of any industrial action on pension reform. The scheme design outlined in this proposed final Agreement is conditional on acceptance of this Agreement.

This is a proposed final Agreement which reflects the conclusion of discussions on the final details with teacher unions since the Secretary of State made his Written Ministerial Statement on pension reform, on 20th December 2011.

2. The main parameters of the new scheme are provided below.

a. a pension scheme design based on career average;
b. an accrual rate of 1/57th of pensionable earnings each year;
c. revaluation of active members’ benefits in line with CPI + 1.6%;
d. normal Pension Age equal to State Pension Age, which applies both to active members and deferred members (new scheme service only). If a member’s SPA rises, then NPA will do so too for all post-2015 service;
e. pensions in payment to increase in line with Prices Index (currently CPI);
f. benefits earned in deferment to increase in line with CPI;
g. average member contributions of 9.6%, with some protection for the lowest paid (subject to the detailed arrangements for determining future contribution structure shown in Annex A);
h. optional lump sum commutation at a rate of 12:1, in accordance with HMRC limits and regulations;
i. spouses/partner pension in accordance with current provisions;
j. lump-sum on death in service of 3 times FTE salary;
k. ill-health benefits the same as those in the current open scheme;

l. actuarially fair early/late retirement factors on a cost-neutral basis except for those with a NPA above age 65 who will have early retirement factors of 3% per year for a maximum of 3 years in respect of the period from age 65 to their NPA;
m. an employer cost cap to provide backstop protection to the taxpayer against unforeseen costs and risks (see paragraph 5 below and Annex B);
n. the public sector transfer club will continue, and consideration will be given to the best method of operation in the reformed schemes;
o. phased retirement arrangements which reflect those in the current scheme, with the additional option of a third drawdown of benefits after a member's 60th birthday;
p. abatement will not apply to service in the reformed TPS. Abatement rules for the current scheme will remain unchanged;
q. members who leave the scheme and return within 5 years will have their accrued service in the current (NPA 60/65) scheme linked to their final salary at retirement;
r. flexibilities to allow members to elect to pay a higher contribution rate in return for a higher accrual rate for a particular year, at full member cost, within existing limits on additional pension; and
s. members who in the new scheme have a normal pension age higher than 65 will have an option in the new scheme to pay additional contributions to reduce or, in some cases, remove any early retirement reduction that would apply, if they retire before their normal pension age. Only reductions that would apply in respect of years after age 65 can be bought out and the maximum reduction that can be bought out is for 3 years (that would apply to a member with a Normal Pension Age of 68 or higher).

3. The Government set out the gross cost ceiling of 21.7% and the net cost ceiling of 12.1% in *Public Service Pensions: good pensions that last*, Cm8214. Provided as Annex E to this proposed final Agreement is a report by the scheme actuary verifying that the proposed scheme design above is within the cost ceiling. This report has been prepared in accordance with the advice in the Government Actuary's Department's

report of 7 October 2011: Cost ceilings for scheme level discussions: Advice on data, methodology and assumptions.

4. The scheme design has been reviewed by HM Treasury who have agreed the approach taken to risk management.

5. This proposed final agreement also covers arrangements for an employers' cost cap, the treatment of NPA following further changes to SPA, and a 25 year guarantee. These are set out in more detail at Annex B.

6. In addition, attached at Annex C is a policy costings note outlining arrangements that will ensure members who, as of 1 April 2012, have 10 years or less to their current pension age will see no change in when they can retire, nor any decrease in the amount of pension they receive at their current Normal Pension Age. The note sets out a legal assessment of the policy as well as the data, methodology and assumptions used to determine that total cash expenditure in each and every year is no higher for the protected group than it would have been were no reform to take place.

7. Members who are within a further 3.5 years of their Normal Pension Age, i.e. up to 13.5 years from their NPA will have limited protection with linear tapering so that for every month of age that they are beyond 10 years of their normal pension age, they lose 2 months of protection. At the end of the protected period, they will be transferred into the new pension arrangements.

8. On the basis that this scheme design is agreed, the Government agrees to retain Fair Deal provision and extend access to public service pension schemes for transferring staff. This means that all staff whose employment is compulsorily transferred from maintained schools (including academies), higher and further education institutions under TUPE, including subsequent TUPE transfers, will still be able to retain membership of the Teachers' Pension Scheme when transferred. These

arrangements will replace the current provisions for bulk transfers under Fair Deal, which will no longer apply. The Government's decision on Fair Deal means that, subject to agreement on scheme reform, independent schools which already have access to the Teachers' Pension Scheme will continue to do so (for existing and new teachers); and new teachers and independent schools will continue to be able to join the scheme under the existing qualifying criteria.

9. An Equality Impact Assessment (EIA) of this scheme design will be carried out in pursuance of the public sector equality duty, at s149 of the Equality Act 2010. This requires public bodies to:

- have due regard to the need to eliminate discrimination;
- advance equality of opportunity; and
- foster good relations between different people when carrying out their activities.

Further details are included at Annex D.

ANNEX A: Contribution Increases

Following the Independent Public Service Pensions Commission (IPSPC) review of public service pension schemes the Government announced a requirement to make £2.8bn of savings over three years by increasing contributions to public sector pensions.

In July 2011 the Department opened a consultation to consider the contribution increases for 2012-13. The consultation closed in October 2011 and the Department published its response on 16 December 2011. The table below shows the contribution rates to be implemented from 1 April 2012. The details of the contribution structure post 2012 will be subject to discussion with unions.

Lower Salary	Higher Salary	Contribution Rate in 2012-13	Increase (against 6.4%)	Membership	% of member-ship
	14,999	6.4%	0%	1,400	0.2%
15,000	25,999	7.0%	0.6%	116,000	17.1%
26,000	31,999	7.3%	0.9%	117,000	17.2%
32,000	39,999	7.6%	1.2%	271,000	39.6%
40,000	74,999	8.0%	1.6%	172,000	25.2%
75,000	111,999	8.4%	2.0%	4,000	0.6%
112,000		8.8%	2.4%	600	0.1%

Contribution Increases for 2013-14 and 2014-15

Employee contributions will be increased from 1st April 2012 to reflect the outcome of the recent consultation by the Department for Education. The Department has proposed a number of potential tiering structures for the following two years. Any such tiering structures will be discussed by the Department and unions in the light of experience of opt-outs, other member behaviour and changing circumstances. Relevant data and information will be collated to inform a Government review of tiering structures in advance of the Department consulting on contribution increases for 2013-14 onwards. Information will include data on opt-out and also an assessment of members' expected behaviour in response to further increases in contribution rates. This work will be taken forward within the context of the Government's wider consideration of tiering structures across public service pension schemes.

Consideration of tiering structures for 2013-14 and 2014-15 will reflect the Government's and unions' shared priorities for those structures that they should:

include protections for the low paid,

minimise the risk of opt-outs from the scheme across the whole membership, including for example, newly-qualified teachers and lecturers and part time workers; and

ensure that the scheme remains sustainable, a valuable part of teachers' and lecturers' remuneration, and affordable to all members.

Consideration will also be given to the case for and against a progressive tiering structure.

Both the review and the consultation will be informed by available information on experience across all relevant public service schemes. The tiering structure for 2013-14 and 2014-15 would be subject to:

- the review of opt-out referred to above, that unions and other interested parties will feed into; and
- the requirement to meet the Government's spending review commitments in 2013-14 and 2014-15 across unfunded public service pension schemes.

<u>Contribution Rates for 2015 onwards</u>

The Department and unions will carry out a separate and further review to determine the contribution rate structure to apply from 1st April 2015. The scope of the review will cover the key areas for consideration set out above (i.e. for the 2013-14 and 2014-15 tiers) and will ensure that the structure delivers the average member contribution of 9.6%. It will also take account of the differences in design between the pre 2015 and post 2015 schemes, having regard to such factors as the retention of final salary linkage for accrued service and the 10 year protection.

The review will reflect member behaviour, especially in respect of opt-out since the introduction of tiered contributions and will build upon the earlier review. The Department will undertake an equality impact assessment, which will inform consultation on the contributions from 2015 onwards.

ANNEX B

Future increases to SPA

1. The Government's view is that in the new scheme, for pension accruals post-2015, Normal Pension Age should be set equal to State Pension Age. This will mean that each member will have an individual Normal Pension Age dependent on their date of birth, and that if a member's SPA rises, then their NPA will do so too, for all post-2015 service.

2. As recommended by Lord Hutton, the Government will keep under review the link between Normal Pension Age in the public service schemes and State Pension Age to determine whether the link between the two continues to be appropriate.

3. As set out in the 2011 Autumn Statement, any future increase in the State Pension Age will be based on demographic evidence. The Government will discuss further the process that could be put in place to allow the views of interested parties to be considered when these decisions are made.

4. The Government's view is that, if there are further changes to State Pension Age, there will be an automatic link to change the Normal Pension Age of members of the scheme by an equivalent amount. This also follows the recommendations of the Independent Public Service Pension Commission, to adequately manage risks to the taxpayer from further improvements to longevity. As set out in this proposed final agreement, normal pension age in the main public service pension schemes will be set equal to State Pension Age. The Government believes that the SPA should continue to keep pace with increases in longevity to ensure fairness between generations, and is considering the process that will be used to determine future changes to the SPA, including any increase in SPA or changes to the timing of current proposals for change to SPA. This will be based on demographic evidence. DWP consulted on this over the Summer.

Employer Cost Cap

5. As recommended by Lord Hutton, the Government proposes to introduce an employer cost cap. This would provide backstop protection for the taxpayer, protecting them from highly exceptional and unanticipated events which very significantly increase scheme costs. Accordingly, the Government believes this cap is highly unlikely to bite in the next 25 years.

6. The Government intends that only changes to scheme costs due to 'member costs', such as a dramatic change in longevity and as defined by previous cap and share arrangements, would be controlled by the cap. Financial cost pressures, including changes to the discount rate, would be met by employers. The employer cost cap will be symmetrical so that, if there are reductions in member costs such that the cost falls below a 'floor', the savings would go back into the scheme to the benefit of members, such as by improving members' benefits or reducing member contribution rates.

7. Scheme valuations will take place periodically to assess how the cost of the scheme has increased or reduced. In the event that member costs drive the cost of the scheme above the cap or below the floor, there will be a period of consultation, before changes are made to bring costs within the cap and floor. If agreement cannot be reached through consultation, the accrual rate will be adjusted as an automatic default.

8. The employer cost cap will be set following a full actuarial valuation. The cap will be set at 2% above, and the floor set 2% below, the employer contribution rates calculated ahead of the introduction of the new scheme in 2015. Caps will not be based on cost ceilings, but on the full actuarial valuation. Should new evidence arise over the next few months about the likely impact of the cap, the Government will be willing to consider amending the level of the cap and floor.

25 year Guarantee

9. The Chief Secretary set out to Parliament on 2 November 2011 an offer on public service pensions that is fair and sustainable, and one that can endure for 25 years. This means that no changes to scheme design, benefits or contribution rates should be necessary for 25 years outside of the processes agreed for the cost cap. To give substance to this, the Government intends to include provisions on the face of the forthcoming Public Service Pensions Bill to ensure a high bar is set for future Governments to change the design of the schemes. The Chief Secretary will also give a commitment to Parliament of no more reform for 25 years.

ANNEX C:

Transitional Protection - Headline policy features

It is proposed that transitional protection will be provided to those within 13.5 years of their NPA on 1st April 2012, as set out below.

All members in the current NPA 60 scheme who are aged 50 and over on 1st April 2012, and all members of the current NPA 65 scheme who are aged 55 or over on 1st April 2012 would retain their existing pension entitlements (i.e. they would remain in their current existing scheme) until they draw their benefits or become entitled to do so (other than by drawing phased retirement benefits). In the event that they were subsequently re-employed, future service would accrue benefits in the reformed TPS.

Members of the NPA 60 scheme who are aged between 46½ and 50 on 1st April 2012 would remain in the current scheme on a tapered basis, i.e. a member who was 49 years and 11 months on 1st April 2012 would retain membership of their existing scheme until 1st February 2022 (by when they would be 59 years and 9 months), and from that date they would start to accrue service under the reformed scheme. A member who is 49 years and 10 months on 1st April 2012 would remain in the existing scheme until 1st December 2021. This taper would continue on a linear basis until members who are 46 years and 7 months on 1st April 2012 remain in the existing scheme until 1st June 2015. Those aged 46½ or younger would all move to the reformed scheme from 1st April 2015

Members of the NPA 65 scheme who are aged between 51½ and 55 on 1st April 2012 would remain in their current scheme on the same tapered basis as above, but all the ages quoted would be 5 years greater, e.g. a member who is 54 years and 11 months on 1st April 2012 would remain in the existing scheme until 1st February 2022.

This approach to the 10 year protection honours the CST’s objective, by ensuring that these members do not see any change to when they can draw their benefits or the level of benefits that they will receive. The approach to tapering ensures that those closest to age 50 on 1st April 2012 will receive almost the same level of protection as those who are over age 50 and that the protection is reduced evenly for younger members until it reaches zero protection for those aged 46½.

Costing and behavioural assumptions

By retaining membership of the current scheme members will continue to draw the same level of benefits as currently estimated. This will ensure that the expenditure figures for the 10 years from 2012-13 will not exceed the previous estimates, as it is assumed that members will continue to retire at the same time as they previously would have.

For a period of 3.5 years from 1st April 2022 members will start to reach their current NPA (either 60 or 65) with "mixed" service between the current and reformed TPS. However, this cohort of members will have accrued the vast majority of their service under the current scheme, with only limited service under the reformed TPS. It is assumed therefore that these members will either still draw their benefits at their current NPA (with a lower level of overall benefits) or they will continue to work beyond their current NPA until they accrue a pension broadly equal to the pension they would have accrued at age 60 under the current scheme

Initial impact assessment

Based on current age profile of the scheme (see below), it is estimated that of the total active membership of 630k, approximately 200k members will benefit from the 10 year protection and that a further 60k members will benefit from the tapering protection.

Age Profile of Active members as at 31 March 2010

Teacher Data as at:
31/03/2010

Age Profile

	NPA60 Male FT	NPA60 Male PT	NPA60 Female FT	NPA60 Female PT	NPA65 Male FT	NPA65 Male PT	NPA65 Female FT	NPA65 Female PT	TOTAL
< 21	0	0	0	0	7	92	12	131	242
21	0	0	0	0	71	119	445	246	881
22	1	1	2	0	496	205	2424	622	3751
23	3	1	4	1	1270	307	5434	894	7914
24	42	5	262	28	1866	376	7596	1004	11179
25	329	12	1677	103	2209	387	7903	1016	13636
26	965	38	4276	313	2231	407	6303	952	15485
27	1716	62	6474	595	1824	355	4578	833	16437
28	2315	98	7740	1051	1524	377	3598	795	17498
29	2959	90	8832	1606	1395	379	2791	818	18870
30	3289	140	9136	2236	1192	356	2313	791	19453
31	3284	165	8619	2668	1002	359	1828	780	18705
32	3178	188	7668	3066	851	300	1445	755	17451
33	3344	187	7026	3437	795	327	1206	731	17053

34	3514	191	6755	3689	645	310	1098	771	16973
35	3901	223	6640	4121	639	314	995	914	17747
36	3895	223	6451	4192	620	299	933	989	17602
37	4187	260	6399	4158	607	320	949	1115	17995
38	4381	308	6168	4110	562	323	947	1197	17996
39	4263	297	5793	3818	587	375	979	1342	17454
40	4129	306	5579	3652	519	330	952	1328	16795
41	4020	321	5618	3503	521	349	1046	1322	16700
42	3913	363	5650	3248	487	388	939	1419	16407
43	3861	371	6179	3403	465	359	935	1425	16998
44	4034	383	6501	3339	464	373	954	1309	17357
45	4285	443	6596	3399	444	418	849	1435	17869
46	4101	442	6619	3224	453	373	801	1228	17241
47	4044	434	6491	3004	402	373	740	1114	16602
48	4063	445	6632	2893	373	377	616	1082	16481
49	4094	409	6981	2948	326	323	544	991	16616
50	4183	435	7391	2885	335	323	472	966	16990
51	4364	488	7817	3151	285	341	390	892	17728
52	4642	492	8469	3475	236	304	331	787	18736
53	4679	569	8822	3653	225	313	270	805	19336
54	5009	652	8941	3806	199	267	233	663	19770
55	4951	713	8995	3792	184	285	208	663	19791
56	5122	854	8682	4065	175	246	142	600	19886
57	4672	924	7747	4191	142	249	121	509	18555
58	4192	1032	6762	4100	89	232	90	488	16985
59	3625	1100	5510	3857	99	245	85	418	14939
60	2398	1077	3274	2893	80	248	46	372	10388
61	1594	989	1733	2323	64	237	34	315	7289
62	1269	1006	1210	1882	63	265	30	280	6005
63	913	815	746	1476	34	269	16	308	4577
64	492	539	395	822	26	196	16	197	2683
65	195	398	206	694	16	138	10	193	1850
66	74	274	76	445	8	133	10	201	1221
67	55	182	58	285	4	97	8	200	889
68	27	87	22	158	5	80	5	135	519
69	16	75	18	114	5	64	2	114	408
70	0	57	9	72	4	42	5	76	265
71	1	14	1	22	1	13	0	28	80
72	0	5	0	9	1	12	0	20	47
73	0	4	0	6	0	9	0	14	33
74	0	1	0	3	0	8	0	14	26
75 +	0	1	0	1	1	9	0	21	33
TOTAL	138583	19189	249652	119985	27128	14575	64677	38628	672417

ANNEX D - EQUALITY IMPACT ASSESSMENT

The Government takes its obligations to have regard to equality impacts very seriously, and this commitment was reiterated by the Chief Secretary to the Treasury in his letter of 15 February 2012 to the General Secretary of the TUC. The Government has confirmed that the responsible Departments will undertake Equality Impact Assessments for each of the reformed public service pension schemes before the legislation enacting the schemes is introduced. The Government is committed to conducting assessments that are transparent and as robust as possible as part of a genuine and serious process to identify and have due regard to equalities impacts, as required by the Equality Act 2010.

A working group met on Tuesday 6 March to discuss the overall approach to the Equality Impact Assessments, establishing principles and timescales for how they should be carried out. The group was chaired by the Cabinet Office and included officials from the Treasury, Government Equalities Office and the lead departmental officials for the three large unfunded schemes. Union participants were drawn from the TUC negotiating team.

Following the discussion on 6 March it was proposed that the following approach should be adopted:

The equality impact assessments will be conducted by the relevant sponsoring departments. In addition, the Government will conduct a central analysis in order to compare and assess the impact across all of the schemes.

The timescale for the assessment is pressing, and the process must be completed in good time to allow the analysis to influence decision making and the conclusion of the policy development process, prior to the introduction of legislation. Departments will therefore aim to complete the EIAs by the end of May 2012. The Government will then complete the central analysis over the following four weeks. The central working group will meet in June to discuss the analysis and consider any further action.

The EIAs should be conducted in a way that demonstrates compliance

with the public sector equality duty and good practice guidance from the Equality and Human Rights Commission. The EIAs must assess the impact of the reforms on all of the relevant equality strands.
In line with the EHRC guidance, the process of conducting the EIAs should consider:

- What are the key findings of the engagement? i.e. based on the evidence gathered, what if any positive and negative impacts of the changes can be identified for people with any particular characteristics?
- If the policy has negative impacts on people with particular characteristics, what steps can be taken to mitigate these effects?
- Does any part of the policy discriminate unlawfully?
- Does the policy miss opportunities to advance equality of opportunity and foster good relations?

Stakeholders including the relevant unions should be engaged and consulted from the outset, including on the scope and methodology for the assessment. Unions will have the opportunity to submit evidence and views on equality impact and the Government will seek feedback on the analysis and reasoning during the process and share the results of the EIAs with unions. Departments should also be given access to GEO/EHRC support in conducting the assessments.

Following the completion of the EIAs, in having due regard to its findings, the Government will consider what further mitigating actions might be necessary in pursuance of the public sector equality duty. The next steps including any mitigating actions will be discussed with unions, prior to the introduction of legislation.