

Buying additional STPS pension – Scotland

The NASUWT believes that the Scottish Teachers' Pension Scheme (STPS), with an average employee contribution which has increased by 50 per cent from 2012 onwards, must provide a decent pension at a decent pension age.

The Scottish Government has created STPS flexibilities, which enable teachers to purchase additional pension provision. In addition, previous provisions to purchase additional pension remain in place. The NASUWT advises that members take independent financial advice before purchasing additional STPS flexibilities or additional pension.

NASUWT members, as part of their member benefits package, are able to utilise Wesleyan for free and independent advice tailored for teachers and education professionals. Contact details are available at the end of this booklet.

Buying additional pension

Members of the STPS continue to be eligible to purchase additional pension in multiples of £250 to provide additional pension, including dependents' pensions.

This facility is available for both final salary and CARE scheme members. Any elections made by a member whilst they were in the final salary scheme, such as a 'protected' or 'tapered' member (before their transition date), will remain unchanged and arrangements for deductions from salary will also remain unchanged.

However, any election made after moving or 'transitioning' to the new CARE scheme from 1 April 2015 onwards will mean that transition members can only buy additional CARE pension. Also, any new members who join the new CARE scheme on or after 1 April 2015 will only be able to buy additional CARE pension.

Any additional pension will not receive the in-service indexation of the Consumer Prices Index (CPI) + 1.6% but will instead be revalued in line with the CPI.

Buying faster accrual

CARE scheme members are able to purchase faster accrual by paying higher contributions in order to accelerate the rate at which their CARE pension accrues for a particular year. Therefore, this option is open to transition members and new members once they join the CARE scheme from their transition date or 1 April 2015 respectively.

Members can elect to earn CARE pension at a faster accrual rate by meeting the full cost of the extra pension through additional monthly contributions from their salary. Instead of accruing pension at the normal rate of $1/57^{\text{th}}$, members of the CARE scheme can purchase faster accrual at rates of $1/55^{\text{th}}$, $1/50^{\text{th}}$ and $1/45^{\text{th}}$.

Members will be able to elect to purchase the faster accrual at the start of each April (each election lasts a year from 1 April to 31 March) provided that they notify Teachers' Pensions in advance by completing the 'faster accrual' application form and ensuring their employer completes its section and returns it to Teachers' Pensions. Members must continue to remain in active service and pay the higher contribution rate for the remainder of the year. Any extra pension accrued through this option would be treated in the same way as other pension, e.g. it would benefit from the same rules on future indexation and dependants' benefits.

Example:

Teacher A receives a salary of £30,000 per annum; below is an illustration of the increase in her pension as a result of buying faster accrual.

Accrual rate	Pension	Extra pension
1/57 (automatic)	£526.32	-
1/55	£545.46	£19.14
1/50	£600.00	£54.54
1/45	£667.67	£67.67

Buying out the actuarial adjustment

Under the new CARE scheme, members can retire before their normal pension age (NPA) by taking actuarially reduced benefits of approximately 5% for each year that benefits are taken early. The reduction for a member aged 65 who takes their CARE pension before their NPA is at a lower rate of 3% for each year that benefits are taken early before their NPA.

From 1 April 2015, new members and tapered members (who transition to the new CARE scheme after their transition date) can buy out up to three years' actuarial adjustment depending on the number of years between 65 and their NPA. If a member's new NPA is 66 they would be able to buy out one years' actuarial adjustment, if their new NPA is 67 they would be able to buy out two years' actuarial adjustment and if their NPA is 68 they would be able to buy out three years' actuarial adjustment.

Therefore, the 'buy out' facility would enable a tapered or transition member to take their full and unreduced final salary teachers' pension at age 65, together with their CARE pension in full, on an unreduced basis. Also, a new member who only has a CARE pension may be able to take their pension early, from age 65, in full and on an

unreduced basis (before their state pension age (SPA)) without the punitive actuarial adjustment.

The facility to buy out the actuarial adjustment can only be bought within six months of entering the CARE scheme and remains a career-long commitment with varying contribution rates throughout; unless the election is revoked, in which case a member will only receive the buy-out adjustment in respect of the benefits accrued during the purchase period. Also, if a member decides to work to their scheme NPA after making an election to 'buy-out' then they will not be refunded any extra contributions made under this facility. Therefore, members of the STPS should take independent financial advice before making an election to buy out.

Any buy-out elections are void if a member has already taken their CARE benefits and returned to teaching - a scheme member cannot use the buy-out facility again. Also, if a scheme member has a break of service of more than five years then again they cannot exercise the buy-out facility. Any break of service of less than five years is unaffected for buy-out purposes.

More than one employer

If a member has more than one employer and chooses to make a flexible benefit purchase election, then they are required to notify Teachers' Pensions and their employers that they wish to make an election to purchase the flexibilities and that they agree to the deduction of salary. Subject to overall limits, a member can, if they wish, have different rates of deductions from each employer for the purchase of faster accrual. However, an election to purchase the actuarial buy-out would apply to all of their employments.

Limits and allowances

There is an overall limit to the overall value of all the flexible benefits that a member of the CARE STPS can purchase of £6,500 for 2015/16. This figure is likely to be revised annually and includes buying additional pension and purchasing faster accrual, but not buy-out of the actuarial adjustment. Any additional pension

purchased under the final salary scheme (in multiples of £250) is separate from this overall limit.

Any additional purchase of flexible benefits will also be taken into account when assessing a member's total benefits against their annual allowance (AA) and Lifetime Allowance (LTA) for taxation purposes by HMRC.

Therefore, members are strongly advised to take independent financial advice before making any elections to purchase any flexibilities such as additional pension, faster accrual and buy-out.

The NASUWT strongly recommends that members of the Union utilise the free, independent financial advice from Wesleyan which is provided as part of their membership benefits package.

Additional Voluntary Contributions (AVCs) – Scotland

The Teachers' Pensions AVC scheme provider, Prudential, has revised the teacher AVC facility from 6 April 2005 in line with the UK Government's wider pensions 'freedom and choice' reforms.

Under the freedom and choice reforms, savers in defined contribution (DC) pension schemes can extract their pension savings in one go rather than having to purchase an annuity, which would provide them with regular pension income for the rest of their life. Freedom and choice flexibilities do not apply to the TPS which remains a defined benefit scheme that provides known pension benefits at retirement. Defined contribution pension schemes rely on the instability of investments to provide pension benefits for members.

The NASUWT does not support the UK Government's 'freedom and choice' reforms, which seem superficially attractive, but pose a threat to the principle that pensions are received for life. Members are advised to take independent financial advice before deciding how to take their Teachers' AVC pension pot.

In the 2015 Budget, the Chancellor of the Exchequer, George Osborne, announced that, from April 2016, pensioners who had already purchased an annuity, which was in payment, would be able to take the 'remainder' of their annuity as a one off or 'drawdown' payment. As the TPS defined benefits pension does not purchase an annuity, this would not apply to a TPS pension, but it remains to be seen whether this 'freedom' will apply to a Teachers' AVC annuity which is already in payment.

The NASUWT has become aware of organisations purporting to offer teachers advice on retirement planning, including individual financial advice, while seeking to exploit the uncertainties and anxieties which teachers feel. In some cases, teachers can pay very high fees for such advice.

The NASUWT is able to offer the following services to members:

- Free general information about changes to the teachers' pension scheme, including to members' overall pension benefits;
- Individual free casework and legal support when problems with Teachers' Pensions occur.

The Financial Services Act prevents trade unions from providing individual financial advice. However, the NASUWT is in partnership with Wesleyan, which is able to give free, independent financial advice. Wesleyan also organises free 'planning for retirement' seminars. The NASUWT strongly recommends that members of the Union take advice from Wesleyan which is provided as part of their membership benefits package. Wesleyan financial consultants are regulated by the Financial Conduct Authority (FCA) and can advise on matters relating to the new Teachers' AVC schemes. Wesleyan can also arrange home visits and their contact details are:

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<http://www.wesleyan.co.uk/professions/teachers/>