



Teachers' Pensions

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Reforms to the Teachers Pension Scheme introduced in January 2007 included an increase in the normal pension age for new entrants (from 60 to 65) and increases in contributions - from 6% to 6.4% for employees and from 13.5% to 14.1% for employers. There would be a cap on employer contributions of 14% from the 2008 valuation onwards.

In June 2010, the Conservative Liberal Democrat Coalition Government established an Independent Public Service Pensions Commission, chaired by former Labour Secretary of State for Work and Pensions, Lord Hutton of Furness, to look at “the long-term affordability of public sector pensions, while protecting accrued rights”. The Commission published its interim report in October 2010. This concluded that the most effective way of making short-term savings was to increase member contributions and that there was a clear case for doing this. In response, the Government said it would implement progressive changes to the level of employee contributions in public service schemes (apart from the armed forces), equivalent to an average of 3.2 percentage points, to be phased in from April 2012. A consultation on proposals to increase teachers' contributions for 2012/13 was launched at the end of July 2011.

Recommendations of the Commission's final report, published in March 2011, included replacing existing schemes with new ones, with pension entitlement based on career average earnings rather than final salary and linking members' normal pension age to their State Pension age. The Government accepted Lord Hutton's recommendations as a basis for consultation. On 2 November it published further details of its proposals, including: a more generous accrual rate compared to that already proposed (1/60th compared to 1/65th); and transitional arrangements for those with 10 years or less to their normal pension age on 1 April 2012.

Members of the four teaching unions have voted for strike action, with a day of action planned for 30 November.

For more on the background to reform of public service pensions generally, see Library Standard Note SN 05678 [Public service pension reform – 2010 onwards](#).

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Contents

1	Current scheme	3
1.1	Overview of provisions	3
1.2	Membership	4
1.3	Costs and funding	4
	Funding basis	4
	Contribution rates	5
	Cost sharing/capping	6
2	Labour Government's reforms	7
2.1	Reform process	7
	Working group for the longer term examination of the TPS, 1997	7
	Proposal to increase the pension age, 2002	8
	Progress Report, July 2004	10
	Consultation Document, September 2004	11
	Public Service Pension Scheme Framework Agreement, October 2005	13
	Consultation Document, May 2006	15
	Legislation	17
2.2	Expected impact	17
3	Conservative-Liberal Democrat Coalition Government's reforms	18
3.1	Switch to the CPI	18
3.2	Independent Public Service Pensions Commission	19
	Contribution increases	21
	Longer-term, structural reforms	21
4	Taking forward the reforms	22
	Negotiations with the trade unions	22
4.1	Debate on the issues	25
	The basis for reform	25
	Actuarial valuation	28
	Contribution increases	29
	Scheme design	31
	Normal pension age	34
	Teachers in independent schools	36

1	Premature retirement compensation	38
1.1	Reforms to arrangements for meeting the cost – 1996-97	38
1.2	Further reform - 2006	40

1 Current scheme

1.1 Overview of provisions

The Teachers' Pension Scheme (TPS) is an unfunded, contributory, final salary public service occupational pension scheme. The [Superannuation Act 1972](#) provides the legislative framework for this, with the detailed rules in regulations (for example, the [Teachers' Pensions Regulations 1997](#)).¹ Changes to the scheme were introduced on 1 January 2007, affecting new entrants from that date. These reforms are discussed in more detail in section 2 below.

Key features of the scheme affecting members before and after that date are summarised in the table below:²

	Pre 2007 members	New entrants from 1 January 2007
Normal Pension Age	60	65
Members' contributions	6.4%*	6.4%*
Employer contributions	14.1%	14.1%
Members' Pension Benefits	1/80th final salary for each year reckonable service	1/60th for each year of reckonable service
Lump sum	Three times the pension (and more scope to take a higher tax-free lump sum and a lower level of pension)	Option to give up £1 of annual pension in exchange for £12 of tax free lump sum, up to a maximum of 25% of the fund value

*Variable at future valuations through the cost sharing mechanism

Further details can be found in a leaflet for scheme members – [“Teachers' Pensions: Your Guide”](#) (July 2010).

In 2009/10, the average pension in payment from the TPS was £10,858 (compared to an average of £7,841 for all of the main public service schemes).³ The interim report of Lord Hutton's Independent Public Service Pensions Commission found that an important reason for differences in pension payments was length of service:

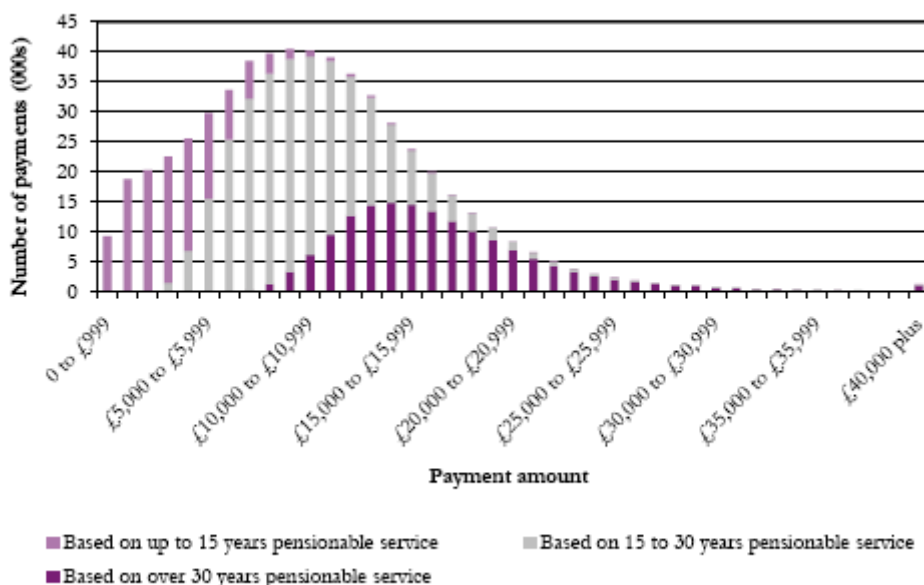
1.31 One important reason for differences in pension payments is length of service. Chart 1.E shows that this is a key determinant of the distribution of pensions from the teachers' pension schemes.

¹ SI 1997/3001, as amended.

² For a fuller summary see, Government Actuary's Department, [Teachers Pension Scheme \(TPS\) Key features pre-post 1 January 2007](#)

³ [Independent Public Service Pensions Commission: Interim Report](#), 7 October 2010, table 1.C, page 31

Chart 1.E: Pensions in payment from UK teachers' pension schemes



Source: IPSPC analysis of scheme returns data.

1.2 Membership

As at the end of 31 March 2010, the Teachers' Pension Scheme had some 611,972 active members. The figures in the table below are from the 2009/10 Resource Accounts⁴:

Active members	611,972
Deferred members	422,784
Pensions in payment (including dependants)	567,012

1.3 Costs and funding

Funding basis

Like most of the public service schemes, the Teachers' Pension Scheme operates on a pay-as-you-go (PAYG) basis.⁵ This means that employer and employee contributions are paid to the sponsoring government department, which pays out pension benefits, netting off the contributions received.

The Teachers' Pension Scheme (TPS) is "notionally funded". This means that periodic valuations are carried out as though there was a fund. Contributions are set on the basis of these valuations. Gerald Rhodes in his 1965 report, "Public Sector Pensions", explains that notional funding as an arrangement was first developed for the Post Office (PO) scheme. The PO scheme had originally been part of the Civil Service scheme (a PAYG scheme). In order that the cost of pensions could be "fairly" represented in the PO accounts, it was

⁴ Teachers' Pension Scheme (England and Wales) Resource Accounts 2009-10. HC 257, July 2010

⁵ The main exception is the Local Government Pension Scheme, which is funded. The pension scheme for MPs (the Parliamentary Contributory Pension Fund) is also funded.

decided to conform as nearly as possible to normal commercial practice and to assess what the position would have been had the scheme been funded.⁶

The TPS was set up in the 1920s as a notional fund because it was decided that a real fund would be too expensive:

The pension fund for teachers was set up in the 1920s. It was established as a notional fund to which teachers and their employers were required to contribute prescribed amounts towards the costs of pensions. Notional funding was preferred to real funding because the setting up of a real fund was considered too expensive at the time (though real funds were retained for other local government employees and for universities). Before that teachers' pensions were paid on a non-contributory basis similar to civil servants.⁷

The TPS regulations require an account to be maintained, known as the Teachers' Pension Account, to which contributions from members and employers are credited and from which expenditure on benefits is debited. A notional investment income is assumed on the balance in the account. However, contributions from members and employers are paid to the Exchequer, and the Exchequer effectively meets the cost of all benefits.⁸

A Working Group set up in 1997 looked at the funding basis and decided that no fundamental change. A change to a funded scheme, it said, would involve significantly higher costs for a period of almost fifty years:

2.6 The main advantages of real funded schemes were identified as being that the costs and benefits of such schemes are readily apparent, that their liabilities and assets are separated from the employer's business, thereby providing security for members' benefits, and that they are able to achieve the best possible rate of return from their investments owing to their broad investment basis. However, it was shown that these advantages could also be achieved by the present arrangements of the TPS.

2.7 In addition, an investigation by the GAD showed that the cost to the public purse of moving to a real funded scheme was likely to be very significantly higher than the cost of the TPS arrangements for a period of almost fifty years. The Department did not believe that a value for money case could be made in favour of real funding for teacher's pensions.

2.8 The Working Group reached consensus that no fundamental changes should be made to the funding basis of the TPS at this time. Nevertheless, some members thought that there might be a case for considering this issue again in the future.⁹

Contribution rates

The rate of members' contribution is in regulations.¹⁰ Employer contributions are set on the basis of periodical reviews by the Government Actuary, which the scheme is required to

⁶ Gerald Rhodes, *Public Sector Pensions*, page 108-9

⁷ DfEE, *Report of the working group for the longer term examination of the Teachers' Pension Scheme*, July 1999, para 4.3

⁸ *The Teachers' Pension Scheme (England and Wales) Actuarial Review as at 31 March 2004*, Report by the Government Actuary November 2006, para 1.3

⁹ *Report of the working group for the longer term examination of the Teachers' Pension Scheme*, July 1999

¹⁰ *Teachers' Pensions Regulations 1997* (SI 1997 No. 3001), regulation C3

conduct.¹¹ The contribution rate is assessed in two parts – a standard rate to cover the cost of accruing benefits, and a supplementary contribution to fund any deficit:

First, a standard contribution rate (SCR) is determined. This is the contribution, expressed as a percentage of the salaries of teachers and lecturers in service or entering service during the period over which the contribution rate applies, which if it were paid over the entire active service of these teachers and lecturers would broadly defray the cost of benefits payable in respect of that service. Secondly, a supplementary contribution is payable if, as a result of the actuarial investigation, it is found that accumulated liabilities of the Account for benefits to past and present teachers, are not fully covered by standard contributions to be paid in future and by the notional fund built up from past contributions. The total contribution rate payable is the sum of the SCR and the supplementary contribution rate.¹²

Following a review of the scheme the rate of employee contribution was increased from 6 per cent to 6.4 per cent from January 2007.¹³ The GAD review of the scheme as at 31 March 2004 recommended an increase in the employer contribution rate from 13.5% to 14.1% from January 2007.¹⁴

Cost sharing/capping

As part of the reforms to the scheme introduced by the Labour Government, an agreement was reached on how to deal with future cost pressures. The June 2006 consultation document proposed a number of measures to secure the sustainability of the TPS. These included requiring any cost increases or savings from future valuations to be shared equally between employees and employers, and capping the employer contribution rate at 14% from the 2008 valuation onwards:

- the member contribution rate would increase by a further 0.2% as the members' share of the outcome of the 2004 TPS valuation taking it to 6.4%;
- the employer contribution rate would increase by 0.6% following the 2004 valuation taking it to 14.1%;
- there would be an equal division between members and employers of any cost increases or savings that may result from future valuations;
- there would be a ceiling of 14% on the employer contribution rate that would take effect from the 2008 valuation onwards;
- the equal division of cost increases or savings and the ceiling of 14% on the employer contribution rate would be reviewed in the light of any changes in the total contribution rate that arise from factors other than demographic experience, for example overriding legislative requirements.¹⁵

¹¹ *Teachers' Pensions Regulations 1997* (SI 1997 No. 3001), regulation G4

¹² DCSF, [Teachers' Pension Scheme \(England and Wales\) – Financial Note](#), May 2008; See also, *The Teachers' Pension Scheme (England and Wales) Actuarial Review as at 31 March 2004, Report by the Government Actuary November 2006*, para 6.5-6; See also DfEE, Report of the working group for the longer term examination of the Teachers' Pension Scheme, July 1999, para 4.4

¹³ Details of contributions to the TPS in cash terms and as a % of pay from 2002-3 to 2006-07 can be found in [HC Deb, 20 October 2008, c84W](#)

¹⁴ HC Deb, 21 November 2006, c30WS; "The Teachers' Pension Scheme (England and Wales) Actuarial Review as at 31 March 2004. Report by the Government Actuary. November 2006

¹⁵ DfEE, First class, adaptable, sustainable. Teachers' Pension Scheme England and Wales: Consultation, para 4.10.1

This agreement was introduced as part of the package of reforms which came into force on 1 January 2007.¹⁶ The Labour Government said that the cost sharing and cost capping agreements introduced in the TPS (as well as the civil service and NHS schemes) would “deliver long-term sustainability through the reduction of taxpayer exposure to risks, principally those associated with improvements in longevity over and above improvements already anticipated.”¹⁷ See also section 2.2 below on the impact of the reforms.

2 Labour Government’s reforms

2.1 Reform process

Working group for the longer term examination of the TPS, 1997

On 29 July 1997, Stephen Byers, the then Minister for School Standards at the Department for Education and Employment (DfEE), announced that changes would be made to the early retirement provisions of the TPS (see section 1 below). Furthermore, the Government would be inviting representatives of the Teachers’ Pension Scheme and their employers to join them to look at a range of issues suggested by teachers’ unions, teachers’ employers and others.¹⁸ A working group with members drawn from teacher and employer representatives, DfEE and the Government’s Actuary Department was established in November 1997. Its terms of reference were:

To examine the current provisions of the Teachers’ Pension Scheme and consider whether changes are needed to meet the best interests of the education service consistent with affordability to the public purse. In particular to consider:

- whether it is still appropriate to have a single undifferentiated scheme covering schools, further education and higher education;
- whether it is still appropriate to have a notionally funded scheme for teachers;
- whether modifications of the current pattern of benefits for teachers might better meet their needs and those of the service;
- whether individual teachers might be given greater flexibility to make extra contributions for extra benefits;
- whether teachers should be allowed to take an actuarially reduced pension at their own request; and
- the development of a scheme which would make teaching more attractive as a profession for new entrants.¹⁹

The outcome of the review was announced on 27 July 1999.²⁰ The working group’s final report was published on the same day.²¹

On the question of separating the scheme for different education sectors, the working group concluded that there was no clear case for this and found little evidence of cross subsidy between the various sectors. It also reached consensus on the question of the notional fund.

¹⁶ *Teachers Pensions Regulations 1997* (as amended), regulation G5

¹⁷ HC Deb, 26 July 2007, c105WS.

¹⁸ HC Deb 29 July 1997 c 130W

¹⁹ DfEE press notice, “Clarke announces outcome of teachers’ pensions review,” 27 July 1999

²⁰ *Ibid.*

²¹ DfEE, *Report of the working group for the longer term examination of the Teachers’ Pension Scheme*, July 1999

It concluded that the cost to the public purse of moving to a real funded scheme would be significantly higher than the current arrangements for a period of almost fifty years. It therefore decided to recommend that no fundamental changes should be made to the funding basis of the scheme.

The working group did not reach conclusions on the issues of whether teachers should be given greater flexibility to make extra contributions for extra benefits or whether modification of the current patterns of benefits would be desirable. On the final question of whether development of the scheme would make teaching more attractive as a profession for new entrants, the group concluded that “detailed improvements to the present level and structure of teachers’ pensions do not appear to be a critical factor in teacher recruitment”.²²

The issue of whether to allow teachers the option of an actuarially reduced pension at their own request proved very controversial. The working group was unable to reach a consensus: representatives of employers were in favour of an actuarially reduced option while teachers’ representatives were opposed. The final report from the working group, published in July 1999, summarised the two arguments thus:

2.20 The employers’ representatives put forward a paper supporting the introduction of actuarially reduced pensions (ARPs), as an option for management to use to increase their flexibilities as well as those of teachers. They stressed that this option was already available to other public sector schemes. They understood the concern expressed by teachers that some employers would unreasonably use this discretion. The employers’ representatives would, therefore, expect the regulations to specify that employers would not unreasonably refuse to exercise this discretion. In addition, the employers’ representatives stated that they were aware of cases where individual teachers would welcome this flexibility, and that this option should be introduced at the earliest opportunity.

2.21 The teachers’ representatives were opposed generally to the introduction of ARPs and the employers’ proposal as they feared their introduction would represent a worsening of teachers’ early retirement provisions. The teachers’ representatives also maintained that a decision on ARPs should be deferred until the results of the Inland Revenue’s (IR) consultation on flexible retirement arrangements are known.

The Government consulted further on specific proposals for actuarially reduced pensions. It proposed that after the age of 55 a scheme member might apply for early retirement. The pension payable in these circumstances would be based on final salary and the number of years of service in the normal way but reduced to take into account the increased length of time it would be payable. The employer would be able to withhold consent for early retirement on these terms for no more than six months. Following this additional consultation, the Government accepted the principle of actuarially reduced pensions within the scheme. The final regulations were laid on 9 March 2000 and the provisions came into force on 30 March 2000 and 1 April 2000.²³

Proposal to increase the pension age, 2002

The Pensions Green Paper, *Working and saving for retirement*, published in December 2002, asked for views on the proposal that the pension age throughout the public service should be raised from 60 to 65.²⁴ The Pensions White Paper, *Action on occupational*

²² *Ibid*, para 2.24

²³ *The Teachers’ Pensions (Amendment) Regulations 2000*, SI 2000/665

²⁴ Cm 5677, paras 65-69, <http://tinyurl.com/ypxqek> (Internet Archive, retrieved 16 November 2009)

pensions, published in June 2003, confirmed that the Government would be going ahead with this proposal.²⁵ By the end of 2006 all new staff would join on the new conditions. The pension rights of existing staff already accrued from past service would be fully protected. Reviews by the individual schemes would decide “how the higher pension age will apply to the future service of existing staff and how to ensure that transitional arrangements are fair and balanced”.²⁶

A consultation document on *Simplifying the taxation of pensions*, published at the same time as the Pensions Green Paper in December 2002, announced the Government’s intention of raising the minimum age at which a pension could be taken from 50 to 55 by 2010.²⁷ The results of the consultation, published in December 2003, confirmed that this would go ahead.²⁸ Schemes would be free to decide how and when to move to the minimum age of 55 by 2010. People with a contractual right, in place in December 2003, to a pension between the ages of 50 and 55 would be able to keep it. Legislation increasing the minimum pension age to 55 was contained in the *Finance Act 2004*. It applies to all private pensions, not just the public service schemes. Details of the transition to the higher minimum pension age were left as a matter for individual scheme reviews.

A Teachers’ Pensions Review Group, comprising representatives of scheme managers, employer and teacher associations and the Government Actuary’s Department, was established with the following terms of reference:

1. To consider how the provisions of the TPS can be modernised in the light of contemporary circumstances, Government policy, pension taxation framework, age equality and diversity legislation and the needs of teachers and their employers.
2. To ensure that amendments or developments to the scheme mean that members and employers continue to view the TPS as a valuable part of the overall remuneration package.
3. To ensure the TPS supports the priorities as set out by the DfES and the National Assembly for Wales on recruitment and retention (taking account of any difference in requirements of the schools, FE and HE sectors).²⁹

In an article in the *Times Educational Supplement* in July 2003, the then Schools Minister, David Miliband, made five promises to teachers about the proposed review of the TPS:

I can give all serving teachers five clear guarantees.

- Serving teachers who are currently aged 50 and over will not be affected by changes to the existing pension arrangements.
- Pension benefits earned before the new arrangements start will not be affected. Any changes made will not affect pension benefits already earned from past service.

²⁵ Cm 5835, paras 32-34, <http://tinyurl.com/3asc8p> (Internet Archive, retrieved 16 November 2009)

²⁶ Ibid, para 34

²⁷ HM Treasury and Inland Revenue, [Simplifying the taxation of pensions: increasing choice and flexibility for all](#), December 2002

²⁸ HM Treasury and Inland Revenue, [Simplifying the taxation of pensions: the Government’s proposals](#), December 2003

²⁹ [Teachernet, TPS review group](#) (retrieved 3 August 2006)

- Teachers will still be able to retire at, before or after sixty as they do now. At retirement, pension and lump sum benefits will take account of the number of years of service the teacher has worked before and after the changes.

I plan to consult fully on the changes with teachers, their union representatives and employers.

The review will also examine what other benefits and flexibilities can be introduced into the pension scheme.³⁰

He went on to say:

All public sector pensions will have to change — and final salary schemes are becoming rarer for new private sector employees. So the Teachers' Pension Scheme (TPS) will still be an attractive feature of the overall remuneration package when it comes to recruitment.

The review comes as teacher salaries are rising rapidly and the Workload Agreement will cut the numbers of hours worked. Recruitment to initial teacher training has risen for three years running and the number of teachers working in maintained schools in England is the highest since 1982.

Change is needed to ensure teachers keep a quality scheme. But we are making no snap decisions. This is a chance to modernise the TPS in a way teachers will value. I believe we can make the changes flexibly and creatively, commanding the confidence of existing and future teachers alike.³¹

Progress Report, July 2004

In July 2004 the DfES published a progress report which outlined a number of options for moving forward with the review and sought to dispel some of the common fears expressed by members about possible changes.³² It offered certain “guarantees and assurances” to serving teachers:

In June 2003 the Government announced that in the future (from 1 September 2006 for new teachers and much later for serving teachers, not earlier than 2013) the pension age for public sector schemes, including the Teachers' Pension Scheme, would rise from 60 to 65. To clarify what this means for members of the Scheme and to allay any concerns, the DfES can offer the following guarantees:

- If you will be aged 60 on or before 31 August 2013 your pension benefits *will not* be affected by the proposed changes: *guaranteed*.
- Pension benefits relating to your past and present service (until the proposed changes are put into practice) will not be affected by the higher pension age: *guaranteed*.
- You *will* still be able to retire at, before or after 60 as you can now: *guaranteed*.
- A full consultation will take place before any changes are made: *guaranteed*.
- We will examine the scope for introducing improved benefits and flexibilities: *guaranteed*.

³⁰ “Minister’s five pledges to you,” *Times Educational Supplement*, 18 July 2003

³¹ *Ibid.*

³² DfES, *Modernisation of the Teachers’ Pension Scheme – a progress report*, July 2004

- Teachers in their 30s and 40s will not lose 20 to 25 per cent of their pensions if they retire at 60.

Every serving teacher will get a personalised pensions' statement.³³

The progress report highlighted the security and good quality of public service schemes, including the teachers' scheme, and argued that in return for this, the scheme should be constantly reviewed to ensure that costs were contained:

3 [...] The Government intends to continue to offer teachers and other public service employees good quality defined benefit pension schemes. The fact that public service pensions are backed by a Government guarantee makes them the most risk free and secure pension arrangements in existence.

4. These pension commitments do, however, represent a considerable cost to taxpayers. That is why it is important that public service occupational pension arrangements are kept under review: justified in relation to practice elsewhere and contribute to a cost effective remuneration package.³⁴

The progress report concentrated on the issue of raising the pension age, but also outlined ways of increasing the flexibilities available to teachers over the way in which they plan for their retirement, both in terms of the scope for building higher pension benefits and the ways in which teachers manage the transition from work to retirement.

Consultation Document, September 2004

The DfES launched its formal consultation on the TPS on 17 September 2004, with the publication of *Modernisation of the Teachers' Pension Scheme (TPS): consultation on possible scheme changes*. When the consultation was launched, the then Schools Standards Minister, David Miliband, said:

We want teachers' pensions to be secure and attractive and the aim of today's consultation is to increase the choice and flexibilities available to individual members. We are looking to make changes in a way that finds the right balance between ensuring the long term viability of the scheme and providing increased choice and flexibility over the ways in which teachers can plan ahead for retirement. I am committed to the Teachers' Pension Scheme remaining a valuable part of teachers' and lecturers' remuneration package.³⁵

In his introduction to the consultation document, Mr Miliband went on to explain:

The consultation document sets out a number of possible changes that could be made to the TPS. Some improvements could be introduced as part of the move to a higher pension age without any increase in the 6% contribution paid by TPS members. Additional improvements could still be possible, but these would have to be associated with a higher member contribution. A number of specific questions about different aspects of TPS can be found at the end of the consultation document. I hope that you will let us have your views.³⁶

³³ Teachernet, *TPS review group* (retrieved 3 August 2006)

³⁴ DfES, 'Modernisation of the Teachers' Pension Scheme (TPS), Progress Report', July 2004

³⁵ DfES press notice, "Teachers and lecturers to have their say on changes to pension scheme", 17 September 2004

³⁶ DfES, *Teachers' Pension Scheme Modernisation Review*, 17 September 2004, p2: <http://tinyurl.com/36ugzo> (Internet Archive, 16 November 2009)

The consultation document contained twelve possible options for changes, summarised in the following table. The approximate increase in the standard contribution rate (SCR), associated with some benefit improvements, was provided to illustrate the costs assumed for some of the proposals.³⁷

While welcoming some of the options for change, doubts were expressed by teachers' organisations about whether an increase in contribution rate to cover any changes would be sustainable. Sue Johnson of the Association of Teachers and Lecturers said:

Teachers will not take kindly to the suggestion of increased contributions at the same time as an increase in their retirement age. Demanding larger payments would lead to some opting out altogether. There is a limit to how much people will pay when they are coming in with high levels of debt.³⁸

On 15 November 2004, the NASUWT – as part of the TUC's wider lobbying against raising the public service pension age – asked MPs to oppose the proposed pension reforms. General Secretary, Chris Keates, said:

NASUWT members have come to Westminster to deliver the message to their MPs that while they fully support the reform of public sector pensions to facilitate flexible retirement, they strongly oppose any package which increases normal retirement age, worsens benefits and breaks the pension promise made to existing staff...

The Government's proposed changes will seriously damage teacher motivation and morale and could worsen recruitment and retention at a time when the Government is emphasising raising educational standards.³⁹

The consultation closed on 10 December 2004. A document containing a summary of the responses to the consultation was subsequently published in March 2005.⁴⁰ The responses indicated support for the following:

- Improvements in **dependants' benefits** such as death in service and children's pensions, and widow(er) and partner benefits payable for life;
- Provision of more **information** about the Teachers Pension Scheme (TPS);
- The options detailed in paragraph 3.9.6 concerning **new flexibilities** in the TPS, but nearly half of respondents agreed subject to no change to the pension age;
- Change in the **accrual rate** to 1/60ths from 1/80ths and for there to be an option to 'buy in' service so that all their service would be calculated on a 1/60th basis;
- **'Winding down'** was seen by most as a right and not an option; and that this should be met with support from Head teachers and HR managers to help scheme members make informed decisions. There was also a view from teachers' representatives that any increased costs associated with 'winding down' should be met by the employer;
- Drawing some pension **benefits from age 55** while remaining in work in a reduced capacity;

³⁷ Ibid, para 3.3

³⁸ "New row over pensions", *Times Educational Supplement*, 29 October 2004

³⁹ NASUWT press notice, "NASUWT members to press MPs to oppose pension reforms", 15 November 2004

⁴⁰ ['Teachers' Pension Scheme Modernisation Review. Analysis of the responses to the Consultation document'](#), March 2005

- Allowing scheme members to **move to new arrangements** in advance of 2013, but this was again in the context of opposition to the increase in pension age;
- A **service and age related benefit structure** for compensating loss of employment should remain in place; and
- The option to purchase **'additional pension'** without the need for an earlier break in service and also to have the ability to buy additional benefits within the TPS scheme to address different personal circumstances;

And a lack of support for the following:

- Teachers and their representatives are generally opposed to the **increase to 65 in pension age**; the increase is, however, supported by employers;
- An **increase in contributions** to cover proposed changes;
- Changes to **ill health retirement** arrangements. Scheme members were not prepared to pay more to ensure a higher rate of enhancement;
- A **one-off options exercise** to move to the new arrangements – respondents preferred the idea of moving to the new arrangements at any time of the individuals choosing before 2013; and
- Removing the **Current Added Years** provision except for members of the Reserved Forces only. The removal of this provision for other members was seen as detrimental; it would mean staff could not take career breaks to study, be a carer, or work abroad and maintain membership of the TPS.

Public Service Pension Scheme Framework Agreement, October 2005

All the public service pension scheme reviews were dominated by the pension age question. By the spring of 2005, threatened public service strikes (including a possible teachers' strike) against the Government's imposition of a higher pension age persuaded the Government to promise a "fresh start" on discussions with unions on 18 March 2005. The strikes were called off and a "pensions summit" held on 31 March 2005. Following this summit, the then Secretary of State for Work and Pensions, Alan Johnson, and General Secretary of the TUC, Brendan Barber, issued a joint statement. A process of discussion and negotiation would now take place "overseen by special sessions of the Public Services Forum, with both sides committed to finding negotiated solutions."⁴¹

An agreement was reached at a meeting on 18 October 2005 that would allow current teachers retain a normal pension age of 60 while new scheme entrants would retire at 65. The PSF agreement contained four "framework principles for scheme negotiations". This included the principle that existing scheme members would "have the right to suffer no detriment in terms of their normal pension age and will retain their existing pension provision unless individual or collective agreements within sector specific negotiations are reached which allow changes to those provisions or transition to new schemes." New entrants would be offered "pensions in the new schemes negotiated through the sector specific discussions."⁴² The Agreement went on to list eight features the new schemes should have:

⁴¹ TUC press release, 31 March 2005, [Statement from Alan Johnson and Brendan Barber](#)

⁴² [Public Services Forum, Final Principles](#), October 2005

5. New schemes should continue to guarantee defined benefit provision, linked to an individual's earnings. Schemes should also offer indexation to protect retired members against rises in the cost of living.
6. All changes to schemes should be equality-proofed before implementation.
7. New schemes should be designed with the objective of increasing appropriate take-up especially amongst part-time and lower paid workers and others who are eligible but where participation in the scheme may be lower currently.
8. As people live longer, healthier lives, it is likely more will choose to continue working for longer. This makes it crucial that schemes give greater flexibility than in the past to those who wish to use part-time work as a stepping stone to retirement, and also greater recognition to service by those who chose to work beyond typical retirement ages.
9. For the purposes of calculating accrual of pensions, 65 will be the reference age (the "NPA") for new entrants to the new schemes entering employment after the implementation date. But not all new members will want to work longer, and all new scheme members will continue to have the right to retire at age 60. All new scheme members who under the new arrangements would retire on a lower pension than they would under existing rules will be offered the opportunity to increase contributions so members can continue to retire on a full pension at age 60. Those who wish to continue to work to the new normal pension age will be able to do so at the standard contribution rate.
10. Government will make available approximately 1% of pay roll to improve benefits in the new schemes, such as improved survivor benefits, or to deal with transition arrangements/protection for existing scheme members.
11. Scheme specific negotiations should take account of the special physical and mental demands of many public sector jobs, and the resultant continuing importance of early retirement provision for those with ill health.
12. The PSF will review the operation of these principles early in the New Year.⁴³

Reactions to the agreement were mixed. The National Union of Teachers (NUT) welcomed the deal, stating:

This agreement is a significant achievement and has been reached as a result of the sustained campaign by the NUT, other teacher and public service unions together with central co-ordination and assistance provided by the TUC. Earlier in the year, NUT members showed their preparedness for action in support of the campaign to protect teachers' pensions. Your determination has brought this success.⁴⁴

However, news reports variously stated that the deal was a "feeble climbdown" and that the Government had variously "caved in" and committed "abject surrender".⁴⁵

⁴³ Ibid

⁴⁴ *NUT News 22: Pensions Protected*, 18 October 2005

⁴⁵ See, for example: "Retirement age pact 'is a feeble climbdown'", *Daily Telegraph*, 19 October 2005; "Ministers cave in over public sector early retirement", *The Times*, 19 October 2005; and "Abject surrender over public sector pensions", *Financial Times*, 19 October 2005. The issue is discussed in more detail in Library Standard Note SN 02209, [Public service pension age](#).

Consultation Document, May 2006

The PSF Framework Agreement reached in October 2005 meant that the review of the TPS had to be re-opened on the basis of the agreed principles. On 17 May 2006, a further consultation document – *First Class, Adaptable, Sustainable: Teachers' Pension Scheme England and Wales* - was issued. This contained a package of reforms “agreed between teacher and lecturer unions, employer representatives and Government”. The Executive Summary explains how the cost of retaining the pension age of 60 for existing members has been “dealt with equitably between existing members and new entrants”:

A key element of those [PSF] principles was that scheme reforms would include a pension age of 65 for new entrants. Existing scheme members could retain a pension age of 60 so long as the cost of providing that protection was met by the membership. The package of reforms set out in this document meets that requirement. All parties were, however, keen to ensure that the way in which the cost of allowing existing members to retain a pension age of 60 was dealt with equitably between existing members and new entrants. This has been achieved through an agreement under which all scheme members will pay the same contribution rate of 6.4%, but new entrants who would have a pension age of 65 would benefit from an improvement in the rate at which their pension builds (the accrual rate). Whilst existing members will retain an accrual rate of 1/80th of salary for each year of service, with a lump sum of 3 times their pension, the accrual rate for new entrants would be 1/60th of salary for each year of service, with complete flexibility over the amount of lump sum taken within the overriding limits set by HMRC.

The 2004 valuation of the TPS has identified a requirement for the contribution rate to increase by 0.8% from 1 January 2007. As part of the cost sharing arrangement that has been agreed with unions and employer representatives, this would be addressed through an increase in the member contribution rate of 0.2% (this is included in the total member contribution of 6.4% set out in the preceding paragraph); and an increase in the employer contribution rate of 0.6%. Both increases would take effect from 1 January 2007.⁴⁶

The intention was that the new scheme would come into effect on 1 January 2007, with the following changes applying to both new entrants and existing members:

- Benefits payable to nominated dependent partners (opposite-sex and same-sex);
- Spouses', surviving civil partners and nominated dependent partners' pensions paid for life;
- Revised ill-health retirement package – tiered approach with a higher level of benefits for total incapacity and lower level of benefits for partial incapacity;
- The better of the last year's salary or the 're-valued (in line with the Retail Price Index (RPI)) average of the best three consecutive years salary in the last ten years of service' to be used for calculating benefits at retirement;
- A facility to purchase up to £5,000 of added annual pension;
- An increase in the death grant to 3 times salary;

⁴⁶ DfES, *First Class, Adaptable, Sustainable – Teachers' Pension Scheme England and Wales: Consultation*, August 2006

- Phased retirement arrangements that would enable TPS members under defined circumstances to continue working as a teacher within the TPS while drawing down some or all of their accrued pension benefits; and
- Increase in contribution rate from 6% to 6.4% for the employee and from 13.5% to 14.1% for the employer

Different rules would apply to existing members and new entrants in the following areas:

- Existing members retain a Normal Pension Age (NPA) of 60. New entrants on or after 1 January 2007 have an NPA of 65;
- The minimum retirement age will be increased to 55 (except on grounds of ill health) with immediate effect for new entrants on or after 1 January 2007, but only from 2010 for existing members;
- New entrants will receive a pension based on 1/60th of salary for each year of pensionable service with the flexible option to take up to 25% of 'fund value' after commutation as a tax free lump sum by surrendering £1 of annual pension for £12 of lump sum. Existing members will retain the 1/80th accrual rate with a separate lump sum which accrues at 3/80th a year. They will however be given more scope to take a higher tax free lump sum and a lower level of pension.

The report of the consultation shows that respondents were supportive overall:

Overall respondents were supportive of the proposals in the consultation. They welcomed the additional flexibility that the proposals offered them in planning for their retirement.

Respondents generally agreed with the timing of the changes although a few felt that more time was needed. The introduction of automatic scheme membership was welcomed as this would avoid part time members of staff forgetting to 'opt in'. Respondents liked the proposed option for changes made to the salary used for calculating pension benefits.

Respondents agreed with proposals for buying additional pension benefits. There was some concern over the cost of additional pension but this was when seen in comparison with the existing arrangements for past added years (PAY). Comment - the fact that the two arrangements are materially different in that PAY benefits are dependant on salary at retirement and the additional pension benefits are for a pre-determined amount will be addressed through communications with employers and members.

Respondents agreed with the proposals for phased retirement although some were mistakenly concerned that existing 'stepping down' arrangements would not be honoured. Overall both additional pension and phased retirement were seen as helpful for teachers planning retirement.

A number of respondents requested consideration of allowing 100% of the Teachers' Additional Voluntary Contribution (TAVC) scheme fund to be taken as a tax free lump sum in a similar way to the Local Government Pension Scheme (LGPS). Comment - There is, however, a material difference in the two AVC arrangements; the LGPS AVC is an integral part of the main scheme (in-house AVC scheme) whereas the TAVC is a separate arrangement governed by a different set of regulations and contractual relationship. This precludes the TAVC fund from being included within the main scheme lump sum calculations for the purposes of calculating the 25% maximum.

Respondents welcomed the proposals for surviving partner benefits as this removed the differences in treatment under the existing provisions. Some individuals, who were single with no family responsibilities, questioned the value of scheme wide family benefits, however, this needs to be viewed alongside the benefits provided by the 'group' arrangements e.g. a relatively low member contribution rate for all members in a high quality scheme.

Respondents agreed with the two tiered approach to ill health retirement benefits, believing that the proposed system would benefit those most in need.

The majority of respondents agreed with the changes to contribution rates as they felt the increases were justified by the improvements to the scheme.⁴⁷

Legislation

The *Teachers' Pensions etc. (Reform Amendments) Regulations 2006* (SI 2006 No. 3122) were laid before Parliament on 7 December 2006, and came into force on 1 January 2007.

A useful summary of the key provisions before and after 1 January 2007 can be found in a Government Actuary's Department factsheet, *Teachers Pension Scheme (TPS) Key features pre-post 1 January 2007*. More detailed information is on the [Teachers' Pensions website](#) which, for example, outlines the features of the scheme for "existing members" and new members from 1 January 2007.

2.2 Expected impact

The Labour Government estimated that the recent reforms would result in savings in employer contributions of around £280 million a year in 2007-08, or some 8% of the pre-reform employer cost.⁴⁸

The National Audit Office (NAO) produced a report on the impact of the 2007/08 reforms to the civil service, NHS and teachers' schemes. The NAO found that the financial impact of the changes comprised three main elements of cost savings, offset in part by other changes which add to the costs:

- i. an immediate increase in employee contribution rates, which accounts for 8 per cent of savings in 2059-60, but starts before the other elements (Figure 8) and so contributes 15 per cent of total savings in the whole period to 2059-60 (Figure 9) and 32 per cent in the spending review period to 2014-15;
- ii. an increase in the normal pension age for new employees, from 60 to 65 in most cases, which accounts for 43 per cent of savings in 2059-60 but has a delayed impact (Figure 8) and so contributes only 25 per cent of savings over the whole period (Figure 9) and one per cent over the spending review period;
- iii. cost sharing and capping, which has not yet had an impact but, if it works as expected, will account for 49 per cent of savings in 2059-60 (Figure 8), 60 per cent over the whole period (Figure 9), and 67 per cent over the spending review period; and

⁴⁷ DfES, *First Class, Adaptable, Sustainable - Consultation*

⁴⁸ HC Deb, 28 October 2008, c1014W; PPI, *An assessment of the Government's reforms to public sector pensions*, October 2008, page 27

- iv. other changes (Figure 13 on page 30), including pension enhancements agreed alongside the higher normal pension age (see paragraph 1.11), have the largest impacts at the start and end of the projection period, so are projected to absorb 25 per cent of the annual savings from the three main elements in 2059-60, 12 per cent over the period to 2059-60, and 81 per cent over the spending review period.⁴⁹

The NAO said:

We estimate that the 2007-08 changes will reduce costs to taxpayers in 2059-60 by 14 per cent compared to what they would have been without the changes. In net present value terms, using the Treasury's discount rate of 3.5 per cent above increases in RPI, aggregate savings over all years in the period to 2059-60 are equivalent to £67 billion in 2008-09 prices. Savings peak at 0.2 per cent of Gross Domestic Product (GDP) in 2047-48, lying between 0.1 and 0.2 per cent of GDP from 2025-26 onwards (Figure 1 overleaf). The peak occurs because of a temporary reduction in numbers of retirements as the changes start to delay the age at which employees retire. Beyond 2059-60, annual savings will initially remain at 14 per cent, rising slowly from 2065-66. As a consequence of the changes, overall costs to taxpayers will stabilise at around 1.0 per cent of GDP, close to their current levels.⁵⁰

Its conclusion on value for money was that:

14 By making changes in 2007-08 to pension schemes for civil servants, NHS staff and teachers, the Treasury and departments overseeing the schemes acted to tackle potential future growth in costs to taxpayers. As a result of the changes, which are on course to deliver substantial savings, long-term costs are projected to stabilise around their current levels as a proportion of GDP. The changes are also set to manage one of the most significant risks to those costs, by transferring from taxpayers to employees additional costs arising if pensioners live longer than is currently projected.⁵¹

Both the Institute for Fiscal Studies (IFS) and the Pensions Policy Institute (PPI) have looked at the impact of the reforms on the value of the pension scheme to individuals.⁵² This analysis has been updated for the Independent Public Service Pensions Commission, to take account of the Conservative-Liberal Democrat Coalition Government's decision to use the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI) for the price indexation of public service pensions from April 2011 (see 3.2 below).⁵³

3 Conservative-Liberal Democrat Coalition Government's reforms

3.1 Switch to the CPI

In the June 2010 Budget, the Coalition Government announced changes to the indexation arrangements for public service pensions:

1.106 The Government will use the CPI for the price indexation of benefits and tax credits from April 2011. The CPI provides a more appropriate measure of benefit and pension recipients' inflation experiences than RPI, because it excludes the

⁴⁹ NAO, 'The impact of the 2007-08 changes to public service pensions', HC 662, December 2010, p24

⁵⁰ NAO, 'The impact of the 2007-08 changes to public sector pensions', HC 662, 8 December 2010, para 5

⁵¹ Ibid

⁵² Disney R, Emmerson C and Tetlow G, *The value of Teachers' Pensions*, IFS Working Paper W09/07, p8; PPI, *An assessment of the Government's reforms to public sector pensions*, October 2008

⁵³ Independent Public Service Pensions Commission: *Interim Report*, 7 October 2010, para 2.15-6

majority of housing costs faced by homeowners (low income households are subsidised separately through Housing Benefit, and the majority of pensioners own their home outright), and differences in calculation mean it may be considered a better representation of the way consumers change their consumption patterns in response to price changes. This will also ensure consistency with the measure of inflation used by the Bank of England. **This change will also apply to public service pensions through the statutory link to the indexation of the Second State Pension. The Government is also reviewing how the CPI can be used for the indexation of taxes and duties while protecting revenues.**⁵⁴

The Government had projected in Budget 2010 that the change would “save £1.8 billion a year across the unfunded schemes by 2015-16, continuing to rise for many decades.”⁵⁵

The Interim Report of the Public Service Pensions Commission (see section 3.2 below) said the change in indexation was “expected to produce upratings that may be on average about three-quarters of a percentage point lower than the equivalent RPI figure for that year”:

Ex.11 This change in the indexation measure may have reduced the value of benefits to scheme members by around 15 per cent on average. When this change is combined with other reforms to date across the major schemes the value to current members of reformed schemes with CPI indexation is, on average, around 25 per cent less than the pre-reform schemes with RPI indexation.⁵⁶

On 18 April 2011, a group of organisations representing members of public service pension schemes (the FDA, Prospect, the GMB, the Civil Service Pensioners’ Alliance and the National Association of Retired Police Officers) applied for judicial review of the decision to switch to the CPI for increasing public service pensions. Prospect explained that “the application makes the case that CPI is not a fair indicator of inflation for pensions uprating since it excludes housing costs and uses a different formula to aggregate price increases to RPI.”⁵⁷ For further detail, see Library Standard Note SN/BT 5434, [Public service pension increases](#).

3.2 Independent Public Service Pensions Commission

The Conservative-Liberal Democrat Coalition Government established an Independent Public Service Pensions Commission, chaired by Lord Hutton of Furness, to undertake a review of public service pensions.⁵⁸ In its interim report, published in October 2010, Lord Hutton gave his assessment of the recent reforms to the main public service schemes - the switch to the CPI and the reforms introduced under the Labour Government, as follows:

Ex.8 The need to modernise public service pensions has been recognised for some time, in particular the need to deal with increasing costs: between 1999-2000 and 2009-10 the amount of benefits paid from the five largest public service pension schemes increased by 32 per cent. This increase in costs was mainly driven by an increase in the number of pensioners, a result of the expansion of the public service workforce over the last four decades, longer life expectancy and the extension of pension rights for early leavers and women.

⁵⁴ HM Treasury, [Budget 2010](#), HC 61, June 2010

⁵⁵ [Independent Public Service Pensions Commission: Interim Report](#), 7 October 2010, para Ex 11 and 2.12-13

⁵⁶ Ibid, Ex 11 ; See also, Pensions Policy Institute, [The future of public sector pensions](#), 23 November 2010, page 17

⁵⁷ [Prospect Press Release, 15 April 2011, Unions launch legal challenge to CPI switch](#); See also [FDA Press Release, 19 April 2011, 'Union challenges legality of Government's pension decision'](#)

⁵⁸ HM Treasury, [Budget 2010](#), HC 61, June 2010

Ex.9 The previous Government recognised these issues and in 1997 started a series of significant reforms. These included:

- limited increases in pension age for groups such as the uniformed services, mostly for new entrants. In the civil service, NHS and teachers schemes existing members were allowed to keep a pension age of 60 if they wished, but new entrants have a pension age of 65 and pension ages lower than 65 will be phased out by 2020 in the Local Government Pension Scheme;
- sharing of risk arising from demographic change in the form of ‘cap and share’ rules. This spreads the cost of any future unexpected increases in contributions more equitably between employer and employees than previously, up to a cap after which any future increases would be borne by the members. Cap and share at present applies to the four biggest schemes – NHS, teachers, local government and civil service, although it has not yet affected employee contributions in any scheme and the Local Government Pensions Scheme does not yet have a cap set; and
- changed accrual rates for many of the reformed schemes, particularly for new entrants, but all except the civil service are still based on final salary. The change to a career average structure in the civil service scheme was not primarily undertaken as a cost saving measure, but as a response to the changing nature of the workforce.

Ex.10 More recently the current Government changed the measure of annual price movements, so that from April 2011 onwards pensions uprating will move from the Retail Price Index (RPI) to the Consumer Price Index (CPI).

Ex.11 This change in the indexation measure may have reduced the value of benefits to scheme members by around 15 per cent on average. When this change is combined with other reforms to date across the major schemes the value to current members of reformed schemes with CPI indexation is, on average, around 25 per cent less than the pre-reform schemes with RPI indexation.

Ex.12 All these past reforms, the current pay freeze and planned workforce reductions will reduce the future cost of pensions. The gross cost of paying unfunded public service pensions is expected to fall from 1.9 per cent of GDP in 2010-11 to 1.4 per cent of GDP by 2060 as the central projection of Chart 1.B shows.

Ex.13 However, these measures will take many decades to fully affect the costs of pensions in payment, which are heavily influenced by existing pensioners, the vast majority of whom are still in pre-reform schemes. The Commission estimates that gross expenditure on unfunded public service pensions will remain close to current levels as a proportion of GDP over the next decade.⁵⁹

He concluded that the reforms introduced to public service schemes under the Labour Government had not fully addressed the underlying issues of sustainability and fairness:

Although some existing members of some schemes have had increases in their pension ages, to reflect increasing longevity, most have not. Cap and share cannot take account of the increases in cost of pensions over recent decades because people have been living longer. Also, untested, complex cap and share arrangements cannot

⁵⁹ [Independent Public Service Pensions Commission: Interim Report](#), 7 October 2010, p44

of themselves, address the underlying issue of structural reforms, nor significantly reduce current costs to taxpayers.⁶⁰

Contribution increases

Lord Hutton was asked to produce two reports – an interim report considering the case for delivering savings on public service pensions within the spending review period (2011-12 to 2014-15) – and a final report, on longer-term structural reforms.⁶¹

The interim report, published in October 2010, recommended that “the most effective way to make short-term savings is to increase member contributions and there is also a clear rationale for doing so.” The rationale for this was “increased longevity, the imbalance between employer and employee contributions and the fact that total contributions may be too low if the discount rate is too high suggests there is a case to make short-term changes, pending long-term reform.” The Commission recommended that “any increases should be managed to protect the low paid and, if possible, increases in contributions should be staged and need to be considered with a view to preventing a significant increase in opt out rates.”⁶²

Longer-term, structural reforms

In its final report, published in March 2011, the Commission made recommendations for longer-term structural reform of public service pensions. These were summarised in its press release as follows:

The main recommendation of the report is that existing final salary public service pension schemes should be replaced by new schemes, where an employee’s pension entitlement is still linked to their salary (a “defined benefit scheme”) but is related to their career average earnings, with appropriate adjustments in earlier years so that benefits maintain their value.

The report suggests that it should be possible to introduce these new schemes before the end of this Parliament, in 2015, while allowing a longer transition, where needed, for groups such as the armed forces and police.

Other key recommendations in the report include:

- Linking Normal Pension Age (NPA) in most public service pension schemes to the State Pension Age;
- Introducing a Normal Pension Age of 60 for those members of the uniformed services – armed forces, police and firefighters – who currently have a NPA of less than 60;
- Setting a clear cost ceiling for public service pension schemes – the proportion of pensionable pay that taxpayers will contribute to employees’ pensions – with automatic stabilisers to keep future costs under more effective control;
- Honouring, in full, the pension promises that have been earned by scheme members (their “accrued rights”) and maintaining the final salary link for past service for current members;

⁶⁰ Ibid, p39

⁶¹ Ibid, p133-4; HM Treasury press release, 8 June 2010, [Spending review 2010 – the Government's approach](#)

⁶² [Independent Public Service Pensions Commission: Interim Report](#), 7 October 2010, EX 26-9

- Introducing more independent oversight and much stronger governance of all public service pension schemes;
- Encouraging greater member involvement in consultations about the setting up of new schemes, and in the running of schemes; and
- Overhauling the current legal framework for public service pensions to make it simpler⁶³

4 Taking forward the reforms

Negotiations with the trade unions

In the 2011 Budget, the Government said it accepted Lord Hutton's recommendations as a basis for consultation and would bring forward proposals in the autumn:

The Government accepts Lord Hutton's recommendations as a basis for consultation with public sector workers, trades unions and others, recognising that the position of the uniformed services will require particularly careful consideration. The Government will set out proposals in the autumn that are affordable, sustainable and fair to both the public sector workforce and the taxpayer.⁶⁴

Members of three teaching unions - the National Union of Teachers (NUT), the Association of Teachers and Lecturers (ATL) and the University College Union, - voted to take strike action. A day of action took place on 30 June 2011.⁶⁵

The NUT summarised its key demands as follows:

What would the Government have to do for the NUT to call off strike action?

- Withdraw the RPI/CPI switch already imposed
- Withdraw its proposals to increase contributions and pension ages
- Carry out the valuation of the Teachers' Pension Scheme (a year overdue) on the same basis as it has been carried out previously
- Honour the 2006 agreement and use it to discuss and decide changes if any are needed⁶⁶

On 19 July 2011, Chief Secretary to the Treasury, Danny Alexander said a series of meetings with the TUC had established a basis for agreement in several areas, but that differences remained on some of the key recommendations. Scheme level discussions would be established, to deliver proposals by the end of October 2011:

The Chief Secretary to the Treasury (Danny Alexander): The coalition programme gave a commitment to review the long-term affordability and sustainability of public service pensions, and Lord Hutton's Independent Public Service Pensions Commission has demonstrated that reform is needed. At Budget, the Government made clear that they accepted Lord Hutton's recommendations as a basis for consultation with public sector workers, trade unions and others and that we would set out proposals in the

⁶³ [Independent Public Service Pensions Commission press release, 10 March 2011, Lord Hutton publishes his final report on public service pensions](#)

⁶⁴ HM Treasury, [Budget 2011](#), para 1.132

⁶⁵ [NUT press release, NUT to strike on 30 June 2011, 15 June 2011](#); [ATL, 'Yes vote for strike action'](#); [UCU news, 'College and university lecturers announce 30 June strike action, 15 June 2011](#)

⁶⁶ [Ibid](#)

autumn that are affordable, sustainable and fair to both the public sector work force and the taxpayer.

The Government have already committed to retaining a form of defined benefit pension in the public sector and protecting accrued rights so that all the benefits that members have earned up to the point of change will be protected. Today, I would like to inform the House of the progress that has been made and the process going forwards.

The Government and the Trades Unions Congress (TUC) have held a series of constructive meetings to discuss public service pension reform which have covered Lord Hutton's key recommendations and the Government's proposed employee contributions increase. A basis for agreement has been established in several areas, but differences remain on some of the key recommendations.

The Government and the TUC have agreed that to further inform the discussions on Lord Hutton's recommendations, there should be scheme level discussions alongside the central process already established. Scheme level discussions will ensure a fuller understanding of the implications of reforms, before final conclusions are reached. These scheme level discussions will deliver initial proposals for reformed schemes by the end of October this year, allowing further work to finalise detailed scheme design before the Government introduces legislation in due course.

Lord Hutton's recommendations will inform these scheme level discussions and the Government will provide scheme-specific cost ceilings. These ceilings will be based on Lord Hutton's proposals, but will go further and ensure that the pension individuals receive at normal pension age would be broadly as generous for low and middle income earners as it is now. These cost ceilings will ensure that public service pensions remain affordable and sustainable, by setting a limit on the contribution made by the Government and ultimately the taxpayer.

Further to the rationale for short term savings set out in Lord Hutton's interim report, the Government announced plans to target £2.8bn savings per year by 2014-15 through public service employee pension contributions at Spending Review 2010. The scheme-by-scheme consultations for the unfunded public service pension schemes to deliver the first years' savings of £1.2bn will commence by the end of this month. Reflecting the Government's commitment to protect the low paid, the Government's has set out its preferred parameters for any design. There should be no increase in employee contributions for those earning less than £15,000 and no more than a 1.5 percentage point increase in total by 2014-15 for those earning up to £21,000. This amounts to a 0.6 percentage point increase in 2012-13 on a pro-rata basis. It is proposed that higher earners will pay more but the Government has proposed a cap on the maximum increase of 6 percentage points (before tax relief) by 2014-15. This amounts to a 2.4 percentage point cap in 2012-13 on a pro-rata basis. These consultations will be completed by the end of October, in order to ensure implementation by April 2012.

The Government remains committed to securing the full Spending Review savings of £2.3bn in 2013-14 and £2.8bn in 2014-15, requiring each scheme to find savings equivalent to a 3.2 percentage point increase. Scheme specific discussions will make proposals on how these savings are achieved and will be required to make proposals by the end of October this year.⁶⁷

The Chief Secretary went into more detail in a [letter to TUC General Secretary, Brendan Barber of 18 July 2011](#).

⁶⁷ HC Deb, 19 July 2011, c91-4

The NUT, UCU and ATL responded that:

Unfortunately there appears to be a real danger that the government may impose an arbitrary and unfair ceiling on what they are prepared to spend to support teachers' pensions. In our view, without real negotiations on this key issue, these talks will be a sham - the only issue to be decided being how much more teachers will pay, and how much longer they will have to work to secure inferior benefits.⁶⁸

On 2 November 2011, the Chief Secretary to the Treasury announced a new offer to the unions, including:

- **A more generous accrual rate.** In October it had proposed “cost ceilings based on Lord Hutton’s recommendations that generate an accruals rate of 1/65th for the new schemes.” It was now proposing a cost ceiling of 1/60th of average salary accruing for each year worked. This represented an 8% improvement in the Government’s offer.
- **Transitional protection.** Scheme negotiations would be given the flexibility outside the cost ceiling, to ensure that anyone with 10 years or less to their pension age on 1 April 2012 would see no change in when they retire, nor any decrease in the amount of pension they receive at their current normal pension age.⁶⁹

He said reform along the lines proposed could endure for 25 years or longer.⁷⁰ The offer was conditional on agreement being reached - “an agreement by the end of the year on the heads of terms on a scheme-by-scheme basis.”⁷¹

The Government proposed “cost ceilings” for the four major public service schemes (teachers, NHS, civil service and local government), set as scheme-specific contribution rates expressed as a proportion of pensionable pay. For the Teachers’ Scheme, it proposed a gross cost ceiling of 21.7%, with contributions of 12.1% from employers and 9.6% from employees.⁷²

The NUT commented on the three main parts of the proposal as follows:

- The accrual rate for pensions would be improved from 1/65 to 1/60.

This would only maintain the current accrual rate for the post-2007 Teachers’ Pension Scheme, so it is not an improvement compared with the current scheme. It would still also mean teachers paying more, working longer and getting less due to career averaging and CPI pensions indexation

- Teachers within 10 years of their current normal pension age on 1 April 2012 would have “transitional protection”.

⁶⁸ [Joint statement from ATL, NUT and UCU 19 July 2011](#)

⁶⁹ [HC Deb, 2 November 2011,c928](#)

⁷⁰ [HC Deb, 2 November 2011,c930](#)

⁷¹ [Ibid, c928 and c935](#)

⁷² HM Treasury, [Public Service Pensions: good pensions that last](#), Cm 8214, November 2011, Table 3.A

This would apply to those in the pre-2007 TPS born before 1 April 1962 and those in the post-2007 scheme born before 1 April 1957. It would mean that they would remain on their current final salary scheme, with the same accrual rate and normal pension age as now, so that their pension entitlements would be unaffected. The Government has also suggested the possibility of further "tapered" protection for 3 or 4 years. Teachers who get this transitional protection would, however, still have to pay 50% higher contributions and face losses from CPI pension indexation, the biggest changes facing this group. The NUT would welcome this partial protection but believes teachers in that group should still want to defend younger teachers facing much bigger attacks.

- The Government would promise that this will be the last change to pensions for a "generation".

It is not at all clear how the current Government can bind its successors. Also, this does not mean that there would be no further increases in teachers' normal pension ages. The Government wants to retain the proposed link between the TPS pension age and State pension age. This would mean the TPS pension age rising above 68 if the State pension age were increased further or individual teachers' pension ages rising if the timetable for the planned increases in State pension age to 67 and 68 were brought forward.⁷³

It would consider "its response to the Government proposals in discussions within the TUC and with other teacher unions."⁷⁴

On 9 November, members of the National Association of Head Teachers (NAHT) voted to take strike action, for the first time in the union's 114-year history:

More than 53.6 per cent per cent of union's membership took part in the ballot with a massive 75.8 per cent of them voting 'yes' – testimony to the intensity of feeling over an issue which many school leaders see primarily as a threat to staff recruitment and retention and ultimately, therefore, as a threat to educational standards for the nation's children.⁷⁵

4.1 Debate on the issues

The basis for reform

One of the main arguments of the unions is that mechanisms have already been agreed which will keep the TPS viable and sustainable in the long term. The ATL says:

In 2007 changes to the TPS were agreed precisely to deal with increased life expectancy and to keep the scheme viable in the long term. There has been no new evidence to suggest further change is necessary.⁷⁶

It argues that the Government should give the "cap and share arrangements time to work" and that the regular actuarial valuations (at which cap and share would come into play) are the correct means for assessing the financial health of the scheme.⁷⁷ Similarly, the NUT says:

⁷³ [NUT, the Government's new pensions offer, 2 November 2011](#)

⁷⁴ Ibid

⁷⁵ NAHT press release, Countdown to prevent industrial action as school leaders vote to strike over pension cuts, 9 November 2011

⁷⁶ [ATL Pensions Update, April 2011](#)

⁷⁷ [ATL, policy on pensions](#) (downloaded June 2011).

The NUT's agreement with the Government in 2006 made changes to the Teachers' Pension Scheme that made it sustainable for the long term. The House of Commons Select Committee and the National Audit Office have both confirmed that the cost of public sector pension schemes will fall as planned. Lord Hutton's final report says that public sector pensions if unchanged from now would fall from 1.9 per cent of GDP now to 1.4 per cent of GDP in 2060. This agreement made provision for teachers to pay more for their pensions, or for other changes to be made if the valuation requires it. This shows the willingness of teachers to accept their share of any increasing costs – but the Government wants to abandon that agreement and impose changes without any informed basis from a valuation and, for the move from RPI to CPI, without any negotiations at all.⁷⁸

In support of their case, both unions refer to the study of the National Audit Office on *The impact of the 2007-08 changes to public sector pensions*⁷⁹ and the subsequent report of the Public Accounts Committee.⁸⁰ The NAO looked at changes introduced the Teachers', NHS and civil service schemes in 2007-08. The main changes aimed at reducing and better managing taxpayer costs were:

- **Employee contribution rates** were increased for NHS staff and teachers;
- The **normal pension age** rose from 60 to 65 for most new staff;
- A '**cost sharing and capping**' mechanism [...] was introduced to spread future cost increases between employers and employees.

The "cost sharing and capping" (or cap and share) policy was:

[...] designed to ensure that the cost pressures associated from the rising cost of providing pension scheme benefits (such as improving longevity) are shared between employers and employees up to an agreed employer contribution cap, beyond which all further increases will be the responsibility of employees. This sets a maximum limit to employer contributions thus protecting the public finances and taxpayer. The costs will be assessed through the periodic scheme valuations that take place every 3 or 4 years.⁸¹

The NAO concluded that:

14 By making changes in 2007-08 to pension schemes for civil servants, NHS staff and teachers, the Treasury and departments overseeing the schemes acted to tackle potential future growth in costs to taxpayers. As a result of the changes, which are on course to deliver substantial savings, long-term costs are projected to stabilise around their current levels as a proportion of GDP. The changes are also set to manage one of the most significant risks to those costs, by transferring from taxpayers to employees additional costs arising if pensioners live longer than is currently projected.⁸²

However, the NAO did not comment on whether public service pension schemes were financially affordable, describing that as "a political judgement rather than an audit assessment."⁸³

⁷⁸ NUT press release, NUT to strike on 30 June 2011, 15 June 2011

⁷⁹ NAO, *The impact of the 2007-08 changes to public sector pensions*, HC 662, 8 December 2010, p19

⁸⁰ Public Accounts Committee, *The impact of the 2007-08 changes to public sector pensions*, 26 May 2011 Committee, 38th report of 2010/12

⁸¹ HM Treasury, *Long-term public finance report: an analysis of fiscal sustainability*, December 2009, Box 6A

⁸² *Ibid*

⁸³ *Ibid*, para 10

Lord Hutton, who also looked at the issue, agreed that “what level of pension cost is affordable is a political decision for the Government within the context of a range of priorities.”⁸⁴ Although expenditure on public service pensions was projected to fall in the longer-term,⁸⁵ he did not think that public service pensions were yet on a “fair and sustainable footing”:

My interim report therefore attempts to establish a proper baseline from which we can answer the fundamental question – are public service pensions on a fair and sustainable footing that provides the best possible value for money to the taxpayer as well as adequate retirement incomes for public service employees? It is my clear view that the figures in this report make it plain that the status quo is not tenable. I believe we need to adopt a more prudent approach to meeting the cost of public service pensions in order to strike a fairer balance not just between current taxpayers and public service employees but also between current and future generations.⁸⁶

The reforms introduced so far (the Labour Government’s reforms and the switch to the CPI introduced by the current Government), did not go far enough:

[...] these reforms have not fully addressed the underlying issues of sustainability and fairness. Although some existing members of some schemes have had increases in their pension ages, to reflect increasing longevity, most have not. Cap and share cannot take account of the increase in the cost of pensions over recent decades because people have been living longer. Also, untested, complex cap and share arrangements cannot of themselves, address the underlying issue of structural reforms, nor significantly reduce current costs to taxpayers.⁸⁷

In a speech 23 June, he said that, as things stood, the public could not be sure that schemes would remain sustainable in the future:

Britain is becoming an ageing society and pension reform in the public sector, began by the last Labour Government, did not in my view keep pace with the accelerating nature of these profound demographic changes. [...] The cost increases are real and are set to continue for some time. It is true that my report contained a summary of the predictions going forward which show a gradually falling share of GDP being taken up in meeting these pension costs. But we must avoid torturing the data until it confesses. My report was clear on this point. These long term assumptions on the share of GDP are highly sensitive to assumptions about the size of the public sector workforce, earnings growth and the implementation of reforms. My conclusion was that the public could not be sure that schemes will remain sustainable in the future.⁸⁸

In his speech to the Local Government Association on 28 June, the Prime Minister, David Cameron, said he thought the balance between what public sector employees pay in to their pensions and what the taxpayer contributes was “getting massively out of kilter” and that “we need to rebalance the system.”⁸⁹

⁸⁴ [Independent Public Service Pensions Commission: Interim Report](#), 7 October 2010, para 3.2

⁸⁵ [Independent Public Service Pensions Commission: Interim Report](#), 7 October 2010, p64; See also, Chart 1E in the final report

⁸⁶ [Independent Public Service Pensions Commission: Interim Report](#), 7 October 2010, foreword

⁸⁷ *Ibid*, p39

⁸⁸ [Lord Hutton, Pension reform in the public services, 23 June 2011](#)

⁸⁹ [David Cameron – speech at the Local Government Association – 28 June 2011](#)

Actuarial valuation

Connected to the above, both the NUT and ATL are calling for the Government to produce the triennial valuation of the TPS as this would show the costs of the scheme. Furthermore, the actuarial valuation is fundamental to the cap and share arrangements (in that, increases in cost pressures identified at a valuation are shared between employees and employers, up to the value of the agreed cap).⁹⁰

The Teachers' Pensions Regulations require an actuarial valuation of the TPS to be carried out by the Government Actuary's Department (GAD) every four years.⁹¹ The last published actuarial review as at 31 March 2004 by the Government Actuary's Department was published in November 2006.⁹² The next valuation, that will show the position of the scheme as at 31 March 2008, has not yet been published. Along with other scheme valuations, it was put on hold pending a [consultation on the discount rate used to set unfunded pension contributions](#) in December 2010. The Government announced the results of this review in the March 2011 Budget.⁹³

On 18 July 2011, the Government confirmed that valuations of public service schemes remained on hold pending consideration of the implications of the new discount rate:

Mr Frank Field: To ask the Secretary of State for Education when he plans to undertake his promised revaluation of the Teachers' Pension Scheme; and if he will make a statement. [65518]

Mr Gibb [holding answer 12 July 2011]: The Government put valuations of the public service pension schemes on hold while the consultation on the discount rate used to calculate contribution rates was taking place. The outcome of the consultation was announced in Budget 2011. The valuations remain on hold pending detailed consideration of the implications of the new discount rate.⁹⁴

On 2 November, the Chief Secretary to the Treasury said that it would be best to wait until a new scheme was in place before carrying the work forwards:

Nic Dakin (Scunthorpe) (Lab): I very much welcome the tone of the Chief Secretary's statement. In line with the principle of transparency, which he underscored in his statement, will he make sure that there is an independent valuation of the teachers' pension scheme?

Danny Alexander: I am grateful for the hon. Gentleman's welcome of the tone we have taken. I hope that, in due course, he will welcome the substance as well. As to valuation information, it is being provided in the context of the scheme-by-scheme discussions. The trade unions have put forward many requests for information to be provided so that alternatives can be costed. All that work is going on in the context of the scheme-by-scheme discussions, but the valuation that was going to take place has been suspended on the basis that changes have been made, not least to the discount

⁹⁰ [Independent Public Service Pensions Commission: Interim Report](#), 7 October 2010, p45

⁹¹ [Teachers' Pension Regulations 1997](#) (SI 1997 No. 3001), regulation G4 and, from September 2010, [Teachers' Pensions Regulations 2010](#) (SI 2010/990), regulation 128

⁹² [GAD, 'The Teachers' Pension Scheme \(England and Wales\) Actuarial Review as at 31 March 2004. Report by the Government Actuary', November 2006](#)

⁹³ HM Treasury, [Budget 2011](#), March 2011

⁹⁴ [HC Deb, 18 July 2011, c562](#)

rate, which make that work invalid. It is best to wait until a new scheme is in place before we carry that work forward.⁹⁵

Contribution increases

As explained above, the Commission's interim report said that:

There is also a strong case for looking at some increase in pension contributions for public service employees, to better meet the real costs of providing these pensions, the value of which has risen in recent years with most of these extra costs falling to taxpayers.⁹⁶

In response, the Government said it would implement increases in member contributions:

Spending review 2010 announced progressive changes to the level of employee contributions to public service pensions that lead to savings of £2.8 billion a year from the unfunded pension schemes by 2014-15, to be phased in from 2012-13, excluding the armed forces. This is equivalent to 3.2 percentage point increase on average. No decisions have been taken on individual schemes—this is subject of discussions with trade unions and other work force representatives.⁹⁷

Once the armed forces are excluded the required increase is 3.2 percentage points on average.⁹⁸ The policy would be phased-in and designed to protect the low paid and with a view to mitigating a possible increase in opt-out rates. It was expected to lead to savings of £2.8 billion a year by 2014-15, to be phased in from April 2012.⁹⁹

On 17 June 2011, Chief Secretary to the Treasury, Danny Alexander, set out the case for contribution increases, as follows:

And the costs have already risen dramatically...total payments to public service pensioners and their dependents were almost £32bn in 2008-9, an increase of a third in real terms over the last decade. But whilst it is the individual public service employee that reaps the benefits of receiving a pension for longer... as things stand, it is not the employee that's paying extra for it. In fact, personal contributions compared to taxpayer contributions have gone down. For instance, when the Teacher's Pension Scheme began, employee and taxpayer contributions were equal at 5%. Today however, current members pay around 6% with taxpayers contributing more than double that at 14%.¹⁰⁰

He gave more detail about how the Government proposed to protect the lower paid and phase-in the increase:

But 3.2 percentage points is the average increase. The increase will not be the same for all levels of income. We are proposing in particular that the lowest earners will face the least, or even zero increase in their contributions. Our proposal would not increase contributions at all for those earning less than £15,000 a year, and we propose a limit of 1.5 percentage points increase for those earning up to £18,000. This would be

⁹⁵ [HC Deb, 2 November 2011, c937](#)

⁹⁶ [Independent Public Service Pensions Commission: Interim Report](#), 7 October 2010, p4

⁹⁷ [HC Deb, 24 May 2011, c589-90W](#). This is discussed in more detail in SN 5768 Public service pension reform – 2010 onwards

⁹⁸ [HC Deb, 24 May 2011, c589W](#)

⁹⁹ [HL Deb, 7 February 2011, cWA31](#) (i.e. savings of £1.8bn in addition to the £1bn already expected through cap and share mechanisms. The figure does not include expected savings from theLGPS. see para 1.16 [Independent Public Service Pensions Commission: final report, March 2011](#)

¹⁰⁰ [Danny Alexander, Speech to IPPR, 17 June 2011](#)

progressive and fair. It would help to ensure that the increase in contributions will not cause people to opt out.

[...]

Furthermore, we have been clear that for all income brackets where there is an increase in contributions, this increase would be phased in over 3 years. Our proposals would mean that in 2012, 40% of the increase will apply... approximately the same amount that had already been agreed between the Unions and the previous Government through the 'cap and share' arrangement. In 2013, 80% of the increase will apply, and 100% in 2014.¹⁰¹

On 19 July 2011, the Chief Secretary to the Treasury announced scheme-specific consultation on the contribution increases. Consultations in the unfunded schemes to deliver savings of £1.2 billion in 2012/13 would start in July 2011 and be completed by the end of October, in order to ensure implementation by April 2012. This would replace 'cap and share' (see above), which would be suspended.¹⁰² Scheme specific discussions would also be required make proposals by the end of October 2011 on how to achieve the savings required in 2013-14 and 2014-15:

Further to the rationale for short term savings set out in Lord Hutton's interim report, the Government announced plans to target £2.8bn savings per year by 2014-15 through public service employee pension contributions at Spending Review 2010. The scheme-by-scheme consultations for the unfunded public service pension schemes to deliver the first years' savings of £1.2bn will commence by the end of this month. Reflecting the Government's commitment to protect the low paid, the Government's has set out its preferred parameters for any design. There should be no increase in employee contributions for those earning less than £15,000 and no more than a 1.5 percentage point increase in total by 2014-15 for those earning up to £21,000. This amounts to a 0.6 percentage point increase in 2012-13 on a pro-rata basis. It is proposed that higher earners will pay more but the Government has proposed a cap on the maximum increase of 6 percentage points (before tax relief) by 2014-15. This amounts to a 2.4 percentage point cap in 2012-13 on a pro-rata basis. These consultations will be completed by the end of October, in order to ensure implementation by April 2012.

The Government remains committed to securing the full Spending Review savings of £2.3bn in 2013-14 and £2.8bn in 2014-15, requiring each scheme to find savings equivalent to a 3.2 percentage point increase. Scheme specific discussions will make proposals on how these savings are achieved and will be required to make proposals by the end of October this year. For local government, the Government recognise that the funded nature of the scheme puts it in a different position and will discuss whether there are alternative ways to deliver some or all of the savings. I have today exchanged letters on these issues with the General Secretary of the Trades Union Congress and copies of these letters have been deposited in the Libraries of both Houses.¹⁰³

¹⁰¹ [Danny Alexander, Speech to IPPR, 17 June 2011](#)

¹⁰² [Letter from the Chief Secretary to the Treasury to TUC General Secretary, Brendan Barber, 18 July 2011](#). 'Cap and share' arrangements were part of the 2007-08 reforms to public service pensions. Under cap and share, increases in cost pressures identified at scheme valuations would be shared between employees and employers, up to the value of a cap on employer contributions. Above the cap, increases in cost would be met by employees, either by changing employee contributions or by altering benefits.

¹⁰³ [HC Deb, 19 July 2011, c91-4](#)

On 28 July, the Government published its consultations on pension contribution increases for civil servants, teachers and NHS staff for 2012/13.¹⁰⁴ The consultation for members of the TPS is on the Department for Education website.¹⁰⁵

The teaching unions argued that that the case for changes such as contribution increases, should be made on the basis of scheme valuations (see above). The ATL said:

Should a valuation show the Teachers' Pension Scheme is unhealthy, ATL would make sure that the scheme and the future of our members are protected. In fact, ATL agreed to increased contributions after the last valuation in 2006. However, the government has chosen not to value the scheme, despite a valuation being due in 2010. It's clear that the proposed contribution increases are simply a way of raising money from teachers and lecturers to go to the Treasury, not towards pensions. We don't think this tax on teachers is fair and our members have already demonstrated their strength of opposition by striking on 30 June. ATL is willing to join talks with the government over the Teachers' Pension Scheme, but little will be achieved unless the government starts an honest debate about the health of the pension scheme.¹⁰⁶

General Secretary of the NUT, Christine Blower, said:

The Government is being entirely disingenuous when it says that teachers' pensions are unaffordable, the fact is they have no idea. The Hutton Report which they commissioned never makes that claim and the Government still refuses to carry out a valuation of the teachers' pension scheme despite it being well overdue, and despite endless requests for this to be done.

Scheme design

Lord Hutton's final report recommended that "a new career average revalued earnings (CARE) scheme should be adopted for general use in the public service schemes." It did not consider final salary schemes provided the "right design for future public service schemes". This was because:

Final salary schemes unfairly benefit high flyers who can receive up to twice as much in pension payments per £100 of contributions. It exposes taxpayers to salary risk (the risk that higher than expected salary rises increase the cost of providing pensions), which should be borne by the scheme member who benefits from the salary rise. And final salary creates a barrier to employees moving from the public to private sector. These inherent problems of final salary schemes impact on fairness and sustainability and have led the Commission to conclude that an alternative model should be chosen for the future.¹⁰⁷

Also in line with Lord Hutton's recommendations, the Chief Secretary proposed that for "future pension accruals, the defined benefit will be linked to the average salary over your career and not your final salary".¹⁰⁸ He emphasised that accrued rights would be protected:

The benefits that you have already secured under the current final salary scheme would be protected. Let me be clear what this means: for what you have accrued, the

¹⁰⁴ [HM Treasury press release, 'Government consultation on proposed pension contribution changes for civil servants, NHS workers and teachers, 28 July 2011'](#)

¹⁰⁵ [DfEE, Consultation on Proposed Increases to Contributions for Members of the Teachers' Pension Scheme, 28 July 2011](#)

¹⁰⁶ [ATL press release, Raising pension contributions is not to protect teachers in retirement, it's to fill the Treasury's coffers, says ATL, 28 July 2011](#)

¹⁰⁷ [Independent Public Service Pensions Commission: Final Report, 10 March 2011, p10](#)

¹⁰⁸ [NUT factsheet, Reasons for NUT action – key facts for NUT members](#)

'final salary' which is used to calculate that pension would be the one you have when you eventually decide to retire or leave the scheme altogether. And again, for what you have accrued, we would not be changing the age at which you can claim those benefits. You could still draw that part at the retirement age that you were originally expecting to claim it. We will honour, in full, the benefits earned through years of service. No ifs, no buts.¹⁰⁹

The Teachers' Pensions website has some [FAQs](#) on the Hutton Review aimed at scheme members.

The ATL said it believed firmly that the TPS (and the Local Government Pension Scheme, LGPS), to which some of its members belonged, should remain final salary schemes. This was because:

- As far as possible, the main aim of any pension provision should be to maintain the standard of living an individual has achieved at the end of their working life into and throughout their retirement.
- Final salary schemes reward devotion to long service and act as an incentive to joining the profession and to saving for retirement.
- Final salary pensions are easy to understand and offer certainty to scheme members. They simplify an area of financial planning that can cause confusion. They have existed for many decades and are therefore trusted by employees. They make final pensions relatively easy to estimate, enabling employees to plan effectively for their retirement.
- Lord Hutton's proposal to end final salary schemes and implement career average schemes will significantly reduce the benefits of leaders, teachers and support staff in retirement and will impact the low paid hardest, typically women and part-time employees.¹¹⁰

On 2 November, the Government set out its preferred design for the new schemes for teachers, NHS, civil service and local government. Key features included:

- a Career Average Revalued Earnings (CARE) pension scheme;
- Public service workers benefits to be earned at a rate of 1/60^{ths} of pensionable earnings each year;
- Public service workers will have their benefits increased each year they are working in the public services in line with earnings revaluation;
- a Normal Pension Age linked to State Pension Age (or 65, whichever is higher);
- pensions in payment to increase in line with the Consumer Prices Index (CPI);
- benefits earned by leavers to increase by CPI from the date of leaving until retirement;
- average member contributions for the unfunded public service pension schemes set at the level of the existing schemes after the increase of 3.2 percentage points currently planned;

¹⁰⁹ Ibid

¹¹⁰ [ATL, Policy on pensions, 2011](#)

[...]

- members given the option at retirement to convert £1 of annual pension into a £12 one-off lump sum payment in accordance with HMRC limits and regulations;
 - ill-health, death and survivors benefits (ancillary benefits) to match those currently provided by schemes that are open to new members;
 - members who leave the scheme and rejoin within 5 years to be able to link their new service with previous service, as if they had always been an active member;
 - members transferring between public service schemes to be treated as having continuous active service (which would include those transferring between schemes who had rejoined public service after a gap of less than 5 years); and,
- an employer contribution cap to provide backstop protection to the taxpayer against unforeseen costs and risks.¹¹¹

The document included case studies to illustrate what this might mean for scheme members. For example:

Case Study 2:

- 42 years old female (45 years old when the scheme changes)
- 23 years working as a primary school teacher when the scheme changes
- Member of the Teachers Pension Scheme
- Earning £32,000 a year and pays 6.4 per cent towards pension

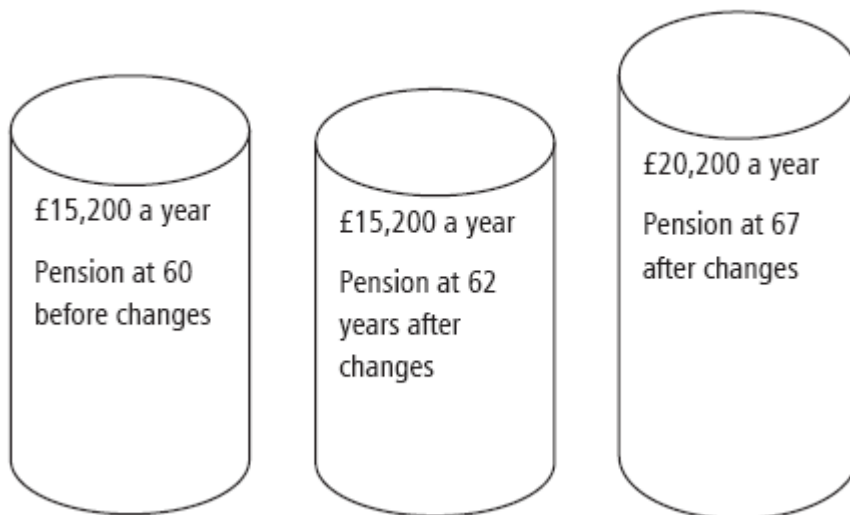
What do the pension reforms mean for this person?

- Protection: She has earned £8,700 annual pension so far. This includes the annual pension equivalent of her lump sum. All this is protected.
- No change: If the scheme didn't change she would get £15,200 a year when she retires at age 60

What options are available to this person?

- Work to 67: If Jean decided to work to 67 she could increase her pension to £20,200 a year. But working to this age is her choice.
- Keep expected pension amount: If she wanted to keep the pension amount she was expecting before the scheme changed she would need to work to 62 years.
- Leave: If she 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 per cent of her salary each year.

¹¹¹ HM Treasury, [Public Service Pensions: good pensions that last](#), Mc 8214, November 2011



Normal pension age

Lord Hutton's final report recommended linking the normal pension age for future accruals, for members of most public service schemes, to their State Pension age:

Recommendation 11: The Government should increase the member's Normal Pension Age in the new schemes so that it is in line with their State Pension Age. The link between the State Pension Age and Normal Pension Age should be regularly reviewed, to make sure it is still appropriate, with a preference for keeping the two pension ages linked.

Ex.27 The introduction of the link to the State Pension Age, which will initially move Normal Pension Ages to 65, will move the proportion of adult life in retirement for public service pension scheme members back to about a third: roughly where it was in the 1980s. The current State Pension Age of 65 is already the Normal Pension Age for most new entrants to public service pension schemes. Moving to this for future accrual will more fairly distribute the benefits between scheme members. In the long term, the timetabled increases in State Pension Age should help to keep the proportion of adult life in retirement for members around this level, on current life expectancy projections.¹¹²

Under existing legislation, the State Pension age (SPA) for women was in any case scheduled to increase from 60 to 65 over the period April 2010 to April 2020. The equalised SPA is then scheduled to increase: to 66 over two years starting from April 2024; to 67 over two years starting in April 2034; and to 68 over two years starting in April 2044.¹¹³ Measures in the *Pensions Bill 2011*, would speed up the pace of SPA equalisation for women from April 2016 so that women's SPA reaches 65 in November 2018. The equalised SPA would then increase to 66 for both men and women from December 2018 to April 2020.¹¹⁴

Because it was recommending that accrued rights should be protected, the Commission expected its proposals to have a limited impact on people in their fifties:

7.34 The Commission's expectation is that existing members who are currently in their 50s should, by and large, experience fairly limited change to the benefit which they would otherwise have expected to accrue by the time they reach their current scheme

¹¹² [Independent Public Service Pensions Commission: Final Report](#), 10 March 2011, Executive summary

¹¹³ *Pensions Act 2007*, s13

¹¹⁴ This is discussed in more detail in Library Standard Note [SN 02234 State Pension age](#)

NPA. This would particularly be the case if the final salary link is protected for past service, as the Commission recommends. This limitation of impact will also extend to people below age 50, proportionate to the length of time before they reach their NPA. Therefore special protections for members over a certain age should not be necessary. Age discrimination legislation also means that it is not possible in practice to provide protection from change for members who are already above a certain age.

7.35 Those employees who intend to take their pension in the next few years could do so before the new terms are introduced. An employee now aged around 50 with many years of service in a scheme with an NPA of 60 would retain the link to his or her final salary for past service, while accruals from about the age of 55 would be under the new terms with a higher NPA. Although the exact impact of this will depend on individual circumstances and the scheme parameters, it is likely that most people currently in their early 50s will have a slightly lower pension if they choose to retire at their current pension age. Individuals could choose either to retire at the age of 60 with a slightly reduced pension, or work for a little longer in order to obtain the same pension income as that which would previously have been payable at 60.¹¹⁵

On 17 June, Danny Alexander said that, as recommended by Lord Hutton:

we are proposing to link the Normal Pension Age to the State Pension Age. That is, we propose linking the age you can draw your occupational pension, to the age that you can draw your State pension. And the two would continue to track each other in the future as we as a society benefit from greater longevity.¹¹⁶

This reason was in response to increasing longevity:

The average 60 year old today is living ten years longer now, than they did in the 1970s. But that also means we are spending longer in retirement. As the Hutton report says, with a retirement age of 60, approximately 40 to 45% of our adult lives are now spent in retirement, compared with around 30% for pensioners in the 1950s.¹¹⁷

Accrued rights would be protected:

For those that would change, as I said, we are still protecting those benefits that you have accrued to date under the old scheme. But not only would we protect those amounts, we would protect when you can draw them. As such, you would still have and you could still draw that first part of your pension at the retirement age you were originally expecting.¹¹⁸

The ATL said retirement ages in the TPS should reflect the capacity of the employee to do the job as effectively and efficiently as possible and therefore should be maintained at current levels:

ATL members should be able to live with dignity and enjoy a period of time in retirement while they have the health and capacity to do so. Retirement age in the TPS and LGPS must reflect the capacity of the employee to do the job as effectively and efficiently as possible in order to meet the demands of the profession.

Normal retirement ages in the TPS and LGPS should be maintained as they are at present.

¹¹⁵ Ibid

¹¹⁶ [Danny Alexander, Speech to IPPR, 17 June 2011](#)

¹¹⁷ Ibid

¹¹⁸ Ibid

The government must acknowledge and recognise the growing difficulty of continuing to work full-time in education beyond the age of 60, particularly with younger, special needs or challenging pupils. Working in education requires not just mental capacity but is also physically challenging.

Although average life expectancy is increasing, evidence clearly shows that this has not been matched by the length of time people live free of illness, disability or both. The evidence from the Department of Work and Pensions demonstrates that although people live longer, a large proportion of that increase in longevity is spent living with an illness or disability.

The government should look at retirement planning and introduce guidance advocating that employers establish greater flexibility in working practices, hours, and the redeployment of staff. Employers must be able to offer the right adjustments in order to encourage working later in life and prevent increases in ill-health cases in the education profession.¹¹⁹

On 2 November, the Government proposed transitional arrangements for people within ten years of their pension age on 1 April 2012. Other people would still have a choice as to when they retire:

- for those with 10 years or less to their pension age on 1 April 2012, the Government's objective is that they will see no change in when they retire, nor any decrease in the amount of pension they receive at their current Normal Pension Age. Schemes specific discussions will determine the fairest way of achieving this objective, taking full account of the equalities impacts and legislation, while ensuring that costs to the taxpayer in each and every year do not exceed the Office for Budget Responsibility forecasts of public service pension costs, which do not take account of the further reforms set out in this document;
- other workers will also have a choice about the age at which they retire – they are not being forced to work to their State Pension Age. Current public service workers can draw the full pension benefits they have earned under their current pension scheme at their current Normal Pension Age. However, they may choose to work longer and earn more pension benefits under the new scheme;¹²⁰

Teachers in independent schools

Teachers in independent schools are eligible to be members of the Teachers Pension Scheme (TPS). The Independent Schools Council (ISC) explains that teachers in the vast majority of ISC schools¹²¹ are members of the TPS and that this is important in aiding mobility between sectors:

The terms for independent school teachers in the TPS are the same as for teachers in maintained schools, so that there are no difficulties in transferring between the maintained and independent sectors.¹²²

Among the issues the Commission was asked to consider as part of its terms of reference were the “impact on labour market mobility between public and private sectors and pensions as a barrier to greater provision of public services” and “which organisations should have

¹¹⁹ [ATL, Policy on pensions, 2011](#)

¹²⁰ HM Treasury, [Public Service Pensions: good pensions that last](#), Mc 8214, November 2011

¹²¹ “ISC represents the eight leading independent schools associations in the UK, collectively educating more than 500,000 children in 1,260 schools in the UK and select British schools overseas. In total, there are around 2,600 independent schools in the UK.” [Independent Schools Council website – about us](#).

¹²² [ISC website – Teaching in an independent school - pay and benefits](#)

access to public service schemes.”¹²³ In its interim report, published in October 2010, the Commission noted that some stakeholders had suggested that extending access to public service schemes to non-public sector employees would help to reduce the disadvantages faced by private sector and third sector organisations as a result of “Fair Deal”. Fair Deal is a policy, introduced in 1999, to cover situations in which public sector employees are compulsorily transferred to a non-public sector employer. It requires the new employer to ensure that there is “broadly comparable” pension provision for future service and that there are options for the handling of existing accrued benefits. The Government recently conducted a review of the Fair Deal policy. The deadline for comments was 15 June 2011.¹²⁴

The Commission noted that arrangements had been in place for some time in some public service schemes, including the TPS, to allow access to private sector employees:

For instance, the NHS and teachers pension schemes have, for historic reasons, long had many private sector employees. In the case of the NHS, this is to cover General Practitioners working as private sector practices. In the teachers schemes, it is principally to cover teachers in independent schools. The Local Government Pension Scheme has for the last decade offered admitted body status to facility pension arrangements for local authority workforces transferred to private sector contractors. In 2007 there were around 2,500 admitted bodies in the scheme, in addition to the 500 principal local authority employers. These admitted bodies employ about seven per cent of LGPS members.¹²⁵

It commented that these arrangements carried risks to the taxpayer that could be managed, but not completely removed:

6.26 However, there are important arguments against widening the current provisions. Doing so would involve the Government bearing additional risks arising from pension liabilities accrued in the private sector. But the Government would have little control over the liabilities being accrued, since it would not set the wages of these employees.¹²⁶

6.27 Some of these risks can be managed. The Teachers’ Pension Scheme requires indemnities from third party financial institutions as a condition of new admission for independent schools and its rules control pensionable pay increases in the final years. But such risks cannot be completely removed and evidence to the Commission suggests that many organisations cannot provide such indemnities.¹²⁷

In its final report, the Commission examined in more detail the pros and cons of extending access to public service schemes (see pages 118-9). It concluded that it was in principle undesirable, but that, ultimately, it was for the Government to decide:

Recommendation: It is in principle **undesirable for future non-public service workers to have access to public service pension schemes**, given the increased long-term risk this places on the Government and taxpayers (Recommendation 16).

5.59 The issues concerning access to public service pension schemes are complex and wide-ranging. Enabling access to public service schemes has clear pros and cons

¹²³ [Independent Public Service Pensions Commission: Interim Report](#), 7 October 2010, p133

¹²⁴ This is discussed in more detail in Library Standard Note SN 01665 [TUPE and Pensions](#)

¹²⁵ [Independent Public Service Pensions Commission: Interim Report](#), 7 October 2010, para 6.24

¹²⁶ [Independent Public Service Pensions Commission: Interim Report](#), 7 October 2010

¹²⁷ *Ibid*, para 6.27

and it will ultimately be for the Government to consider how best to address these issues, in the light of its wider policy priorities.¹²⁸

Responding, the Independent Schools Council (ISC)¹²⁹ called on the Government to ensure that independent school teachers could take part in any future public sector pension scheme:

We hope that the government, in considering the recommendations, will take full account of the advantages of encouraging the two-way movement of teachers between the independent and state sectors. This promotes the exchange of best practice, while enriching the experience and developing the expertise of teachers. The ability for our teachers to enrol in the TPS plays an important part in this. ISC itself runs a teacher induction programme, ISCTip, licensed by the DfE, that inducts over 1000 newly qualified teachers per year, many of whom teach in the state sector at some point in their careers.

Independent schools and teachers have always paid their full contributions to the TPS. We believe that, provided public sector pensions schemes are set up sustainably, there should be no additional risk to government by including independent school teachers in a new TPS. Indeed in a well-run scheme additional participants will make a positive contribution of benefit to all.”¹³⁰

The ATL said that “all individuals working as teachers, or who have an element of teaching as part of their job description, should be allowed to join the TPS”, arguing that it “clearly aids the mobility of staff” between the maintained and private sector.¹³¹ The NUT said:

The Government is consulting before taking a firm position on the recommendation. The NUT has stated the view that teachers in independent schools should continue to be eligible for the scheme.¹³²

On 2 November 2011, the Chief Secretary to the Treasury said:

Harriett Baldwin (West Worcestershire) (Con): [...] Many teachers in my constituency work in the state sector, but over their careers they will often spend periods in the independent sector too. Will the proposals continue to allow interchangeability between the two sectors?

Danny Alexander: If agreement is reached, they will. The arrangements that the hon. Lady describes are an important part of the discussions, but they depend on reaching a sustainable agreement on the future of public service pensions along the lines I have set out.¹³³

1 Premature retirement compensation

1.1 Reforms to arrangements for meeting the cost – 1996-97

In general, a member of an occupational pension scheme who chooses to draw their pension early will often have it actuarially reduced to reflect the fact that it will be in payment for longer. Different arrangements apply where a person is retiring early on ill-health grounds

¹²⁸ [Independent Public Service Pensions Commission: Final Report](#), 10 March 2011

¹²⁹ The ICS describes itself as “the umbrella body representing 1,234 independent schools educating more than 500,000 children in the UK, Ireland and overseas.” (Ref: http://www.isc.co.uk/AboutUs_WhatIsISC.htm_)

¹³⁰ [ISC response to Hutton report: public pension schemes should stay open to independent teachers](#), 10 March 2011: :

¹³¹ [ATL's policy on pensions](#)

¹³² [NUT, Reasons for NUT action – key facts for NUT members](#)

¹³³ [HC Deb, 2 November 2011,c932](#)

and, in some cases, where early retirement is due to redundancy, or on the grounds of the efficiency of the business.

Since 1977, the TPS has made provision for premature retirement on a full pension from age 50. Premature retirement could be on grounds of redundancy or where employment is terminated early in the interests of the efficient discharge of the employer's functions. In October 1996, the Conservative Government announced proposals to change early retirement provisions for teachers because of concerns about the cost of the existing provisions and the impact on the supply of experienced teachers:

We have been losing too many experienced, high quality school teachers through premature retirement in recent years. The reforms announced today should reduce premature retirements in schools, will allow schools to retain more of their experienced teachers, and in turn it will reduce the demands on the teacher training system.¹³⁴

This had been raised as a concern by the Public Accounts Committee in 1996. It pointed to the growth in the number not only of redundancy/efficiency premature retirements but also of early retirements on grounds of ill-health and said that in 1994/95 almost 80% of teachers who retired were below the normal retirement age of 60.¹³⁵

Although the decision to grant premature retirement was made by the employer, the cost of paying the full pension early had to be met by the scheme. Employers also had the discretion to enhance the pension by crediting the retiring member with extra years of service, although if they did so, they had to meet the cost.¹³⁶ The Department for Education and Employment considered this arrangement had two principal drawbacks:

Employers are not directly responsible for the full costs to the scheme of the decisions they make, until some years after they have made them, although they do currently pay the cost of any enhancement that they award; and

All employers bear an equal part of the extra cost, regardless of the rate at which they have granted premature retirements.¹³⁷

The Government proposed that teachers would still be able to take premature retirement but the cost of paying a full pension early would be met by the employer rather than the scheme. This would be called mandatory compensation and would be "equal to the difference between the actuarially reduced pension paid from the TSS, and the amount of the unreduced pension." Employers would continue to have discretion to enhance a teachers' pension by crediting them with additional years' of service.¹³⁸

The teachers' unions strongly opposed the proposals, arguing that employers would not fund the additional costs and teachers would be unable to retire early. On 19 February 1997, the Secretary of State, Gillian Shephard, announced that the measures would be delayed until September of that year. The 1997 General Election intervened between the announcement

¹³⁴ DfEE press notice, "Cheryl Gillan announces measures to retain experienced teachers", 22 October 1996

¹³⁵ Committee of Public Accounts 15th report of 1995/96: Department for Education Appropriation Accounts 1994/95 Class X (Vote 5): *The Financial Viability of the Teachers Superannuation Scheme (England and Wales)* HC158 of 1995/96, April 1996.

¹³⁶ *Ibid.*; *The Teachers (Compensation for Redundancy & Premature Retirement) Regulations 1989*, SI 1989/298 as amended

¹³⁷ DFEE letter, 'The teachers' superannuation scheme – proposals for changes to early retirement provisions', 22 October 1996

¹³⁸ Letter from Department for Education and Employment, October 1996; (House of Commons Deposited Paper 4056 (35), 6.11.96)

of the postponement of the changes and the proposed date of implementation. However, the incoming Labour government accepted the principle of the changes. The changes to the responsibility for the costs of early retirement were duly implemented in September 1997 in the *Teachers Superannuation (Amendment) Regulations 1997* (SI 1997/312) and *Teachers' (Compensation for Redundancy and Premature Retirement) Regulations 1997* (SI 1997 No. 311).¹³⁹

Other changes were also made:

- The level of the death grant paid from the TPS was doubled from one year to two from 1 April 1998;
- The criteria for receipt of an ill-health pension was changed so that from 1 April 1997 a teacher must be considered permanently unfit to teach in order to qualify (previously, the incapacity needed to be considered likely to last for the foreseeable future).
- From 1 September 1997, "stepping down" arrangements were improved to allow teachers to move to a lower paid post of lesser responsibility without it having a detrimental affect on their pension.
- Also from 1 September 1997, to facilitate part-time work as an alternative to premature retirement the pension benefits of regular part-time teachers would be based on the full-time salary equivalent applicable in the best consecutive 365 days of pensionable employment during the last three years before retirement¹⁴⁰

There was to be further consultation on the option of actuarially reduced pensions for teachers who choose to retire early.¹⁴¹ There would also be a longer term review of the scheme (see section 0 above).

1.2 Further reform - 2006

By 2004, the arrangements were felt to need review, partly because of employer concerns that they were inflexible, and partly to ensure compliance with forthcoming age discrimination legislation:

3.13.9 – There are two overarching factors that will impact on future premature retirement arrangements whatever form they might take:

- **Government policy to increase the minimum retirement age to 55:** This will take effect in the TPS for new entrants from 2006 and for existing scheme members from 2010, although Inland Revenue rules will provide an exception for those who in December 2002 had an existing contractual right to the early payment of pension benefits.
- **Age discrimination legislation:** It will be necessary to consider how to ensure that premature retirement arrangements are compatible with age discrimination legislation.

¹³⁹ See also HC Deb, 29 July 2007, c129W and DfES [Circular 15/97](#), "Early Retirement Arrangements for Teachers". November 1997

¹⁴⁰ DfES [Circular 15/97](#), "Early Retirement Arrangements for Teachers". November 1997

¹⁴¹ DfEE press notice, 'Shephard announces reforms to Teachers' Superannuation Scheme', 19 February 1997

3.13.10 - We recognise that employers would wish to maintain the option of offering premature and severance packages as an effective tool in managing their workforce; and that TPS members would also want such arrangements to be available. But we need to ensure that the current arrangements are replaced with a framework that is fairer, more flexible and affordable.

3.13.11 Consultees are invited to provide suggestions for a new approach to severance and premature retirement that would best suit the flexible and effective management of the workforce in the context of new opportunities around the transition from work to retirement that are expected to be introduced in 2006 and, looking further ahead, in the context of the increase to 55 in the minimum retirement age in 2010.

3.13.12 Careful consideration needs to be given to the justification for basing compensation for loss of employment on the length of an individual's service. Existing approaches typically relate to the level of severance or redundancy payment to the individual's length of service; and provides for immediate access to pension benefits for those over age 50. An alternative approach could be to move to an arrangement where the value of the pension benefit to an individual whose employment is being terminated is not solely governed by their age or length of service. This would, for example, allow for benefits of a similar value to be paid to individuals one of whom was just under, and the other just over, minimum pension age. In the former case, the payment could be taken as cash or used to buy additional pension benefits at retirement; the older individual would have the same choices but in addition could choose to use their payment to supplement any pension benefits that are put into payment immediately.

3.13.13 Views are invited on whether there are policy reasons for retaining a service and/or age related benefit structure for compensation for loss of employment. If so, in what circumstances might they be appropriate and what form might the benefits take?¹⁴²

A further consultation document in 2006 said:

Severance provisions will be amended as necessary to ensure that they comply with the requirements of the age discrimination legislation. Where appropriate there will be consistency with arrangements that will apply to non teaching staff in schools and colleges that are covered by the Local Government Pension Scheme.¹⁴³

Amending regulations were laid in 2006.¹⁴⁴ Under the system now in force, a teacher who is made redundant (or whose employment is terminated in grounds of efficiency) may be offered compensation of a sum equivalent to 104 weeks' pay as a severance payment, at their employers' discretion (or in accordance with the employer's policy for the award of such payments). This is paid for by the employer.

Where the teacher is over minimum pension age (50 or 55) and under normal pension age, the *Teachers' Pensions Regulations 1997* provide the employer with discretion - as an alternative to a severance payment - to agree to immediate payment of unreduced retirement benefits. The Teachers' Pension Scheme pays actuarially-reduced benefits and

¹⁴² Ibid

¹⁴³ Department for Education and Skills, *First Class, Adaptable, Sustainable*, 2006, para 4.9.2

¹⁴⁴ [Explanatory Memorandum to the Teachers \(Compensation for Redundancy and Premature Retirement\) \(Amendment\) Regulations 2006 \(SI 2006 No. 2216\)](#)

the employer pays the difference.¹⁴⁵ Employers still have discretion to top up premature retirement benefits through additional years of service. They must pay for this.¹⁴⁶

¹⁴⁵ SI 1997/312, Part IV

¹⁴⁶ *Ibid*, Pt V