OFFER: Secretary of State for Education LETTER TO CX

1. This document sets out the Heads of Agreement on the scheme design for the reformed Teachers' Pension Scheme to be introduced in 2015. The government have made clear this sets out their final position on the main elements of scheme design, which unions have agreed to take to their Executives as the outcome of negotiations on the main elements of scheme design. This includes a commitment to seek Executives' agreement to the suspension of any industrial action on pension reform while the final details are being resolved. Further detailed work will take place in the New Year and Executives will consult members as appropriate.

This agreement allows for further discussions on variations to the balance between the accrual rate and the CARE revaluation factor within the limits of the Government's cost ceiling

2. The main parameters of the new scheme are provided below. Scheme-level discussions will continue in early 2012 on a number of issues not covered by this Agreement. These are outlined at Annex A.

a. A pension scheme design based on career average;
b. A provisional accrual rate of 1/57th of pensionable earnings each year, and the resolution of outstanding issues not covered by this agreement (see Annex A).
c. Revaluation of active members' benefits in line with CPI + 1.6% .
d. Normal Pension Age equal to State Pension Age, which applies both to active members and deferred members (new scheme service only);
e. Pensions in payment to increase in line with Prices Index (currently CPI);
f. benefits earned in deferment to increase in line with CPI;
g. Average member contributions of 9.6%, with some protection for the lowest paid (the detailed structure of which is shown in Annex B.);
h. Optional lump sum commutation at a rate of 12:1, in accordance with HMRC limits and regulations;

i. Spouses/Partner pension in accordance with current provisions;
j. Lump-sum on death in service of 3 times FTE salary;
k. Ill-health benefits the same as those in the current open scheme;
l. Actuarially fair early/late retirement factors on a cost-neutral basis except for those with a NPA above age 65 who will have early retirement factors of 3% per year for a maximum of 3 years in respect of the period from age 65 to their NPA; and
m. An employer cost cap to provide backstop protection to the taxpayer against unforeseen costs and risks (see paragraph 5 below and Annex C).

3. The Government set out the gross cost ceiling of 21.7% and the net cost ceiling of 12.1% in *Public Service Pensions: good pensions that last*, Cm8214. Provided as Annex E to this Agreement is a report by the scheme actuary verifying that the proposed scheme design above is within the cost ceiling. This report has been prepared in accordance with the advice in the Government Actuary's Department's report of 7 October 2011: Cost ceilings for scheme level discussions: Advice on data, methodology and assumptions.

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

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

6. In addition, attached at Annex D is a policy costings note outlining arrangements that will ensure teachers who, as of 1 April 2012, have 10 years or less to their current pension age will see no change in when they can retire, nor any decrease in the amount of pension they receive at their current Normal Pension Age. The note sets out a legal assessment of the policy as well as the data, methodology and assumptions used to determine that total cash expenditure in each and

every year is no higher for the protected group than it would have been were no reform to take place.

7. Members who are within a further 3 .5 years of their Normal Pension Age, i.e. up to 13.5 years from their NPA will have limited protection with linear tapering so that for every month of age that they are beyond 10 years of their normal pension age, they lose 2 months of protection. At the end of the protected period, they will be transferred into the new pension arrangements.

8. On the basis that the scheme design in this heads of agreement is agreed, the Government agrees to retain Fair Deal provision and extend access to public service pension schemes for transferring staff. This means that all staff whose employment is compulsorily transferred from maintained schools (including academies), higher and further education institutions under TUPE, including subsequent TUPE transfers, will still be able to retain membership of the Teachers' Pension Scheme when transferred. These arrangements will replace the current provisions for bulk transfers under Fair Deal, which will no longer apply.

ANNEX A

AREAS FOR CONTINUING DISCUSSION IN EARLY 2012

1. The following areas will be discussed in early 2012 together with the completion of an Equality Impact Assessment. The requirement to fit the new scheme within the revised cost ceiling for the Reference Scheme published on 2 November will remain, and agreement on these issues will also be subject to review by HM Treasury to agree the approach taken to risk management, impact on cash flow and any adjustments to the accrual rate as necessary.

   i) Abatement (for service accrued prior to and post 2015)
   ii) Phased retirement
   iii) Treatment of members who leave active service but rejoin within 5 years.
   iv) Treatment of members who transfer between Public Sector Transfer Club schemes
   v) Contribution rates and structure, including the distribution of years 2 and 3 of planned increases and the impact on part time and lower paid staff.
   vi) Contribution rate distribution post 2015
   vii) Flexibilities to allow members to pay to retire before their NPA with an unreduced pension or to increase their pension income.
   viii) The implications of the pension reforms for Total Reward

ANNEX B:

Contribution increases 2012-15

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

HMT has advised each scheme the level of savings that it expects them to make. The savings will be phased, so that in 2012-13 40% of the savings are expected, in 2013-14 80% of the savings are expected and the full savings are required by 2014-15. The savings that the TPS are required to make by 2014-15 is £815m based on salary data as of 31 March 2010.

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

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

The contribution rates in the table will deliver 40% first year savings as required by HMT. The Department will consult on the level of increases for 2013-14 and 2014-15.

ANNEX C

Future increases to SPA

1. The Government's view is that in the new scheme, for pension accruals post-2015, Normal Pension Age should be set equal to State Pension Age. This will mean that each member will have an individual Normal Pension Age dependent on their date of birth.

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

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

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

Employer Cost Cap

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

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

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

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

Reviewing contribution levels and opt-out rates

9. The Government remains committed to securing in full the Spending Review savings of £2.3bn in 2013-14 and £2.8bn in 2014-15 from increased member contributions, and will consult formally on implementation in due course. The Government will review the impact of the 2012-13 contribution increases, including on opt-out, before taking final decisions on how future increases will be delivered. Interested parties will have the opportunity to provide evidence and views to the Government.

<u>25 year Guarantee</u>

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

ANNEX D:

Transitional Protection – Headline policy features

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

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

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

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

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

Costing and behavioural assumptions

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

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

Initial impact assessment

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

Age Profile of Active members as at 31 March 2010

Teacher Data as at:
31/03/2010

Age Profile

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

33	3344	187	7026	3437	795	327	1206	731	17053
34	3514	191	6755	3689	645	310	1098	771	16973
35	3901	223	6640	4121	639	314	995	914	17747
36	3895	223	6451	4192	620	299	933	989	17602
37	4187	260	6399	4158	607	320	949	1115	17995
38	4381	308	6168	4110	562	323	947	1197	17996
39	4263	297	5793	3818	587	375	979	1342	17454
40	4129	306	5579	3652	519	330	952	1328	16795
41	4020	321	5618	3503	521	349	1046	1322	16700
42	3913	363	5650	3248	487	388	939	1419	16407
43	3861	371	6179	3403	465	359	935	1425	16998
44	4034	383	6501	3339	464	373	954	1309	17357
45	4285	443	6596	3399	444	418	849	1435	17869
46	4101	442	6619	3224	453	373	801	1228	17241
47	4044	434	6491	3004	402	373	740	1114	16602
48	4063	445	6632	2893	373	377	616	1082	16481
49	4094	409	6981	2948	326	323	544	991	16616
50	4183	435	7391	2885	335	323	472	966	16990
51	4364	488	7817	3151	285	341	390	892	17728
52	4642	492	8469	3475	236	304	331	787	18736
53	4679	569	8822	3653	225	313	270	805	19336
54	5009	652	8941	3806	199	267	233	663	19770
55	4951	713	8995	3792	184	285	208	663	19791
56	5122	854	8682	4065	175	246	142	600	19886
57	4672	924	7747	4191	142	249	121	509	18555
58	4192	1032	6762	4100	89	232	90	488	16985
59	3625	1100	5510	3857	99	245	85	418	14939
60	2398	1077	3274	2893	80	248	46	372	10388
61	1594	989	1733	2323	64	237	34	315	7289
62	1269	1006	1210	1882	63	265	30	280	6005
63	913	815	746	1476	34	269	16	308	4577
64	492	539	395	822	26	196	16	197	2683
65	195	398	206	694	16	138	10	193	1850
66	74	274	76	445	8	133	10	201	1221
67	55	182	58	285	4	97	8	200	889
68	27	87	22	158	5	80	5	135	519
69	16	75	18	114	5	64	2	114	408
70	0	57	9	72	4	42	5	76	265
71	1	14	1	22	1	13	0	28	80
72	0	5	0	9	1	12	0	20	47
73	0	4	0	6	0	9	0	14	33
74	0	1	0	3	0	8	0	14	26
75 +	0	1	0	1	1	9	0	21	33
TOTAL	138583	19189	249652	119985	27128	14575	64677	38628	672417