



A guide to retirement benefits in public service pension schemes

Written by Senior Pensions Development and
Technical Manager Moira Warner.

INTRODUCTION

My father once observed that marriage was like dancing the tango because you sometimes have to bend over backwards to keep the relationship going in the right direction. And it seems to me that advisers with clients in public service pension schemes must also sometimes feel that way. While steering your client around the retirement dance floor, there are the twin obstacles of pensions tax law and scheme regulations to be safely negotiated. No mean feat for any adviser, and all the more so for those with little public sector scheme practice under their belts.



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Technical Manager

Over the last 12 months, there's been a seemingly perpetual spotlight shone on the first of these obstacles with the lion's share of media interest understandably focused on the impact of the tapered annual allowance on doctors. Age discrimination issues falling out of the transitional protections afforded to older workers as part of structural overhaul in 2015 have also received significant media attention. Spotlights of this kind are all well and good. They highlight issues of immediate concern and alert us to the possibility of change. But what they don't necessarily do is show us the trip hazards in the wider context. So, we also need a light shone on the retirement rules forming the background scenery to our dance number in order to successfully deliver the whole retirement planning production.

In this adviser policy paper, I've set out the wider rules by which members of public service pension schemes are able to claim their benefits. Evolution of these schemes over time has left many members with multiple tranches of final salary and career average benefits and, associated with that, multiple normal pension ages. So, an adviser who's got to grips with their client's annual and lifetime allowance position only has half the battle won. In order to give sound retirement planning

advice, they will also need to understand the relevant scheme's rules on issues such as whether final salary and career average benefits must be taken together, and the rules which apply if a client returns to work following retirement.

I've tried to provide answers to these questions in this deep-dive guide into taking benefits from public service pension schemes. And in order to do so, I've had to put a stake in the ground on a handful of key issues. The steps to be taken can't be clear until we know what tune we're all dancing to.

- Firstly, I've assumed that NHS pension scheme membership for the time being remains fixed at 1/54th of pensionable pay for each year of service for all. If and when the Government's proposals to allow doctors to select a tailored accrual rate are implemented, we'll update this paper
- I've also assumed that, younger, "transition" members will not be reinstated into final salary arrangements as a means of bringing about equitable treatment with their older colleagues who were not required to move to career average arrangements in April 2015. In an [article for Professional Pensions](#)¹ we flagged in August 2019 that not all younger members will have lost out as a result of being switched to a career average accrual rate and that simply putting them back into their old final salary scheme could therefore cause another new form of discriminatory treatment. Stakeholders appear to have now understood this as the Government has recently said it intends consulting on an appropriate solution. Until that time, it makes sense that advisers should plan on the basis of scheme rules as they currently stand with any compensation for those impacted being considered as a bonus on top.

- Finally, I've set out the rules on working after retirement as they apply in normal circumstances. Some of these rules have been temporarily relaxed in order to encourage our retired healthcare professionals to join the fight against Covid-19. More information on these temporary changes can be found [here](#)².

You'll also see that I've excluded ill-health retirement and retirement on the grounds of redundancy or business efficiency from this paper. I've also not considered the rules as they apply to pension credit members. These can vary from those which apply to members in their own right and which are described throughout this paper. This has allowed me to focus on those aspects of the retirement rules which you will come across most often whilst keeping the paper a manageable length. As your most frequent questions relate to the Teachers' and NHS Schemes, I've begun with an exploration of the relevant rules in those schemes. But this is a work in progress and further public service schemes will be added if there is sufficient demand.

I've written the paper in a way which will allow you to easily find the information you are looking for and to dip in and out. This has inevitably resulted in a certain amount of repetition so the paper may feel iterative in nature for anyone choosing to read it from cover to cover. Examples and case studies help set the rules into context. Tabular summaries in the appendices provide "at a glance" information for those looking for high level information only. I hope you find this format clear and the content helpful and welcome your thoughts on other material you think we should cover in this or future papers.

Moira Warner

1 www.professionalspensions.com/feature/3080698/fighting-reverting-public-sector-reforms-create-winners-losers

2 adviser.royallondon.com/pensions/viewpoint/2020/march/nhs-pensions-update/

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SECTION A: NATIONAL HEALTH SERVICE (NHS) PENSION SCHEME

Introduction

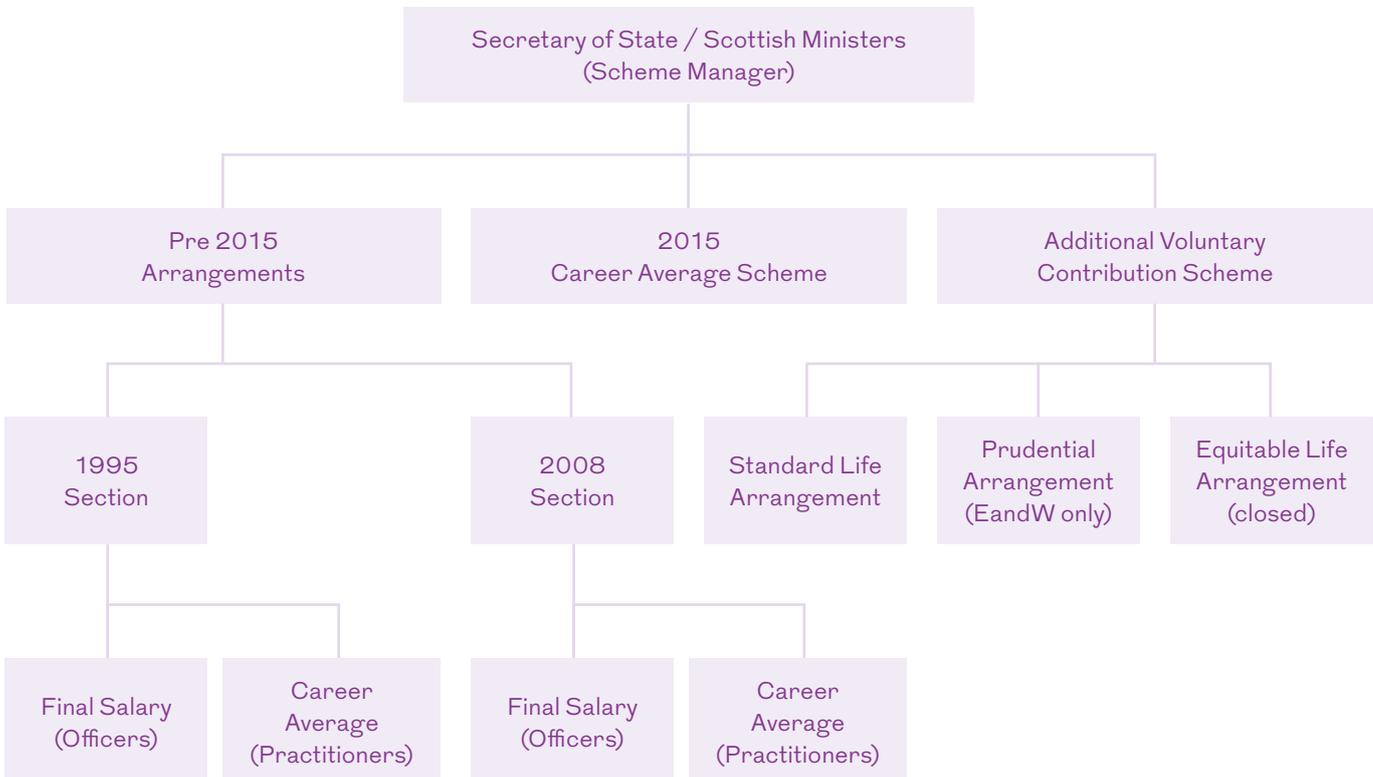
Pension benefits are provided to NHS scheme members on a final salary or career average basis (or a mix) depending on a number of factors which are described in more detail below. Additionally, active members are able to contribute to one or more money purchase AVC arrangements under a separately registered scheme administered by the appointed AVC providers on behalf of the relevant Scheme Manager. Pension arrangements for the NHS are devolved to the Scottish Ministers and thus are administered independently from those in England and Wales under separate registered schemes and in accordance with separate secondary legislation. The structure of the Scheme in both cases therefore currently looks as shown below.

The defined benefit schemes are unfunded so members (including pension credit members) are unable to

transfer the value of their accrued rights to another scheme providing flexible (including money purchase) benefits. Members with less than two years qualifying service may however be able to make such a transfer and NHS AVC members are also normally able to transfer their accrued money purchase AVC rights at any time up to age 75 in line with statutory transfer rights.

Members must have at least two years' qualifying service to be entitled to a pension on retirement. However, members who joined the Scheme before 6 April 1988 must have at least 5 years' qualifying service. All periods of service under the final salary and career average schemes added together count towards this minimum.

Structure of NHS schemes



1. Normal retirement

This section explores the benefits a member builds up in the scheme, the rules on claiming at normal retirement age (NRA) and the implications of having more than one NRA where the member has multiple tranches of benefits.

NHS benefits will be paid in full if taken at the member's NRA and depend on which member type your client is and in which NHS scheme(s)/section(s) the benefits have been accrued.

- a New entrants on/after 1st April 2015 will be accruing benefits in the 2015 career average scheme.
- b Members with “full protection” accrue benefits under their “old”, pre-2015 scheme until retirement. (For further information on “protection”, see **section C**). For those who commenced service prior to April 2008 this will normally be the 1995 Section but see section headed “Choices/Choice 2” below. For those who commenced service on/after 1st April 2008, this will normally be the 2008 Section.
- c Members with “tapered protection” continue to accrue benefits under their “old” pre-2015 scheme until a transition date determined by their date of birth. (For further information on “tapered protection” see **section C**). At that point accrual under the old scheme ceases and they join the 2015 Scheme. Where the member was an officer and hence old scheme service was under a final salary arrangement, they will benefit from the “final salary link” after their transition date. This link means that the member's accrued final salary benefits will be calculated by reference to the pensionable pay earned under the 2015 Scheme as long as the member has no single break in service of more than 5 years. See **section C** for further details of the “final salary link”. Under current regulations, this group will all have transitioned by 1st February 2022
- d Members already in service at 1st April 2015 (and those who re-join after 1st April 2015 following a break of 5 years or more) and who do not meet the criteria for full or tapered protection entered the 2015 scheme on 1st April 2015. Under the final salary link, any officer benefits accrued to 31st March 2015 remain linked to the member's pensionable pay earned under the 2015 Scheme as long as the member has no single break in service of more than 5 years. (See **section C** for further details of the “final salary link”).
- e The benefits payable from each scheme/ section are shown in the table below. As practitioners and officers accrued benefits on different bases prior to April 2015, it's vital to understand the type of membership your client holds. This will be shown on their benefit statements.

OFFICERS	1995 Section	2008 Section
Pension Type	Final salary	Final salary
Pension	1/80th x pay x service	1/60th x pay x service
Lump Sum	3/80th x pay x service + Commutation option at 12:1 for balance of PCLS for those with service on/after 1/4/2008	Commutation option at 12:1 for those with service on/after 1/4/2008
Final Pay definition	Pensionable pay earned in final year OR Pensionable pay earned in either of the 2 preceding years if higher	Average of the best consecutive 3 years inflation-adjusted pay over the final 10 years to retirement
Normal Pension age	60	65
Normal Pension Age for Special Class/MHO Members (note 2)	55	N/A

PRACTITIONERS	1995 Section	2008 Section
Pension Type	Career average	Career average
Pension	1.4% of total inflation-adjusted annual earnings	1.87% of total inflation- adjusted annual earnings
Active member revaluation	PIA (note 11) + 1.5%	PIA (note 11) + 1.5%
Deferred member revaluation (note 12)	PIA (note 11) (currently CPI)	PIA (note 11) (currently CPI)
Lump Sum	3/80th x pay x service + Commutation option at 12:1 for balance of PCLS for those with service on/after 1/4/2008	Commutation option at 12:1 for those with service on/after 1/4/2008
Normal Pension age	60	65

ALL MEMBERS 2015 SCHEME	
Pension Type	Career average
Pension	1/54th of pensionable pay each year
Active member revaluation	Treasury order (currently CPI) + 1.5%
Deferred member revaluation (note 12)	PIA (note 11) (currently CPI)
Lump Sum	Commutation option at 12:1
Normal Pension age	Member's state pension age (minimum of age 65)

Example 1 - 1995 Section Officer

Sam, a hospital doctor, retires normally with 27 years' service and the best of the last 3 years' pensionable pay was £92,000.

The initial pension payable at age 60 is:

$$27 \times £92,000 \times 1/80 = £31,050$$

The automatic lump sum is:

$$27 \times £92,000 \times 3/80 = £93,150$$

As Sam has service from 1st April 2008 he is able to top up his tax-free lump sum to the maximum possible pension commencement lump sum (PCLS) by exchanging pension for cash at 12:1. His starting pension amount of £31,050 will be adjusted in line with the Pensions Increase Act (currently annual CPI from the previous 1st September) on 1st April each year.

Example 3 – 2015 Scheme Officer

Carlos, a radiographer, retires normally with 8 years' career average service. His State Pension age is age 66. The benefits in his pension account have built up as shown in the table below. Each year Carlos accrues pension rights equal 1/54th of his pensionable pay for that year in his pension account. The running total is revalued to protect it against the effects of inflation using a rate set by HMT (currently CPI from September before the start of the scheme year) + 1.5% as long as Carlos remains in active membership.

Year	Pension account brought forward	Revalued Account	Pay	Accrual 1/54th	Pension Account
1	n/a	n/a	£30,105.00	£557.50	£557.50
2	£557.50	£577.01	£30,707.10	£568.65	£1,145.66
3	£1,145.66	£1,185.76	£31,321.24	£580.02	£1,765.78
4	£1,765.78	£1,827.59	£31,947.67	£591.62	£2,419.21
5	£2,419.21	£2,503.88	£32,586.62	£603.46	£3,107.34
6	£3,107.34	£3,216.09	£33,238.35	£615.52	£3,831.62
7	£3,831.62	£3,965.73	£33,903.12	£627.83	£4,593.56
8	£4,593.56	£4,754.34	£34,581.18	£640.39	£5,394.73

In this example we've assumed that Carlos receives annual pay increases of 2% and that the benefits he's building up in his pension account are revalued by 3.5% each year.

The pension Carlos receives on normal retirement at age 66 is:

£5,394.73

Carlos doesn't receive an automatic lump sum but is able to exchange pension for PCLS at 12:1.

Example 2 - 2008 Section Practitioner

Sinead, a GP, retires normally with total practitioner earnings of £1,245,100. The scheme re-values her earnings for each year at 1.5% above PIA. Let's assume that gives her a total uprated earnings figure of £1,531,316.

The initial pension at age 65 is:

$$£1,531,316 \times 1.87\% = £28,635.61$$

Sinead does not receive an automatic lump sum, but is able to exchange pension for PCLS at a rate of 12:1. Her starting pension of £28,635.61 will be adjusted in line with the rate due under the Pensions Increase act (currently annual CPI from the previous 1st September) on 1st April each year.

Example 4 – Transition member (officer)

Shobna, a consultant general surgeon, retires at age 60 with 20 years' service in the 1995 section and 5 years' service in the 2015 career average scheme. She has a State Pension age of 67. Her benefits in the career average scheme have built up as shown in the table below. For this example we've assumed that Shobna gets 2% pay rises each year and that the benefits in her pension account are revalued by 3.5% each year.

Year	Account brought forward	Revalued Account	Pay	Accrual 1/54th	Pension Account Total
1	n/a	n/a	£86,300.00	£1,598.15	£1,598.15
2	£1,598.15	£1,654.08	£88,026.00	£1,630.11	£3,284.19
3	£3,284.19	£3,399.14	£89,786.52	£1,662.71	£5,061.85
4	£5,061.85	£5,239.02	£91,582.25	£1,695.97	£6,934.99
5	£6,934.99	£7,177.71	£93,413.90	£1,729.89	£8,907.60

Shobna has not had a break in pensionable public service exceeding 5 years so her final salary benefits will be calculated on the pay she earns in the career average scheme and will therefore be calculated as £93,413.90 x 20/80.

Her 1995 section pension on retirement at age 60 will be: £23,353.48

Her 1995 section automatic lump sum on retirement at age 60 will be: £70,060.30

Whilst Shobna can take her 1995 section pension in full at age 60 because that is the normal pension age (NPA) for those benefits, her career average pension of £8,907.60 can only be taken in full at her State Pension age which for her is age 67. As long as Shobna is eligible, she can also claim her career average benefits at age 60, but they will be reduced in line with actuarial factors. We consider the implications of early retirement in greater detail in section 2 below.

2. Early retirement

In this section we explore the circumstances under which NHS members are able to retire earlier than their NRA, the impacts on their benefits of doing so and how early retirement rules apply where a member has more than one NRA.

All NHS members and deferred members are normally able to take voluntary early retirement without the need for employer consent in exchange for reduced benefits. There are two exceptions to this:

- the member's reduced pension is less than the GMP
- members who left the scheme before 31st March 2000 cannot claim their deferred 1995 section benefits until age 60

The amount of the reduction is set out in statutory guidance and depends on how many years before normal pension age that benefits are being taken. However, as a broad guide, pension rights are reduced by an around 4 to 5% for each year they are paid before their NRA and 1995 section lump sum rights reduced by around 3% for each year. Dependents benefits are unaffected by early retirement of the member.

The early retirement option is available to most members from the minimum retirement age of 55. However, individuals who joined the 1995 section before 6th April 2006 can elect to retire early from age 50.

It's a truism that significant retirement planning opportunities can be associated with early retirement. Not only will the member be building benefits over a shorter period of time, but additionally, the benefits already accrued will be subject to reduction to reflect that they will be paid on average for longer. Depending on your client's aims and appetite for risk, additional money purchase savings (AVC or PP), a contract to purchase additional scheme pension, or an Early Retirement Reduction Buyout agreement (see **sub-section 7** below) or a combination could be used to help deal with any retirement income shortfall.

The application of adjustments can present particular challenges to transition members (see **section C**) who will have final salary benefits with a normal pension age of 60 or 65 (55 for Special Class members) in addition to career average benefits which will have a normal pension age equal to the higher of age 65 and their State Pension age. It is therefore the case that some clients will need to take an actuarial reduction of as much as 8 years in order to access all of their benefits at the same time at their earliest normal pension age.

Scheme regulations providing how different tranches of benefits may be taken is another important factor for advisers to consider:

- a** The minimum pension age for 2008 section and 2015 scheme members is 55
- b** The minimum pension age for 1995 section members, who were:
 - active members between 31/3/2000 and 5/4/2006 AND
 - have continued in active membership,
 is age 50. Otherwise the minimum pension age for 1995 section members is age 55
- c** Early retirement is also available to all deferred members with service on/after 31st March 2000. Subject to this the minimum pension age depends on date of joining:
 - Deferred members who joined the scheme before 6th April 2006 can take early retirement from age 50

- Deferred members who joined the scheme on/ after 6th April 2006 can take early retirement from age 55
- d** Members who left the 1995 scheme before 31/3/2000 cannot take their benefits before age 60
- e** Members must have a break in their employment contract of at least 24 hours to qualify for retirement benefits. The exception to this are:
 - where the client has deferred 1995 section membership and current 2008 section or 2015 scheme membership, OR
 - has opted out of the 1995 section for more than 5 years.

In these situations it is NOT necessary to have ceased all NHS employment in order to claim 1995 section benefits.

- f** A further exception applies where a 1995 section member has more than one concurrent employment. In this case they are only required to leave service in one of them provided they work less than 16 hours per week in total in the remaining roles. Additionally, the remaining roles must cease to be pensionable.
- g** If the actuarially reduced pension is less than the GMP, the member will not be able to take early retirement benefits.
- h** Pensions taken early are increased under PIA each April, but this will only start at age 55 and at that point will include any increase arrears.
- i** There is no requirement for both final salary and career average benefits to be taken at the same time. Transition members can choose to take only their final salary benefits at their final salary NRA (normally 60 or 65) whilst leaving their career average benefits to be claimed at a later date. However, they must have a break in employment of a minimum of 24 hours to do so.

Example 5 – Early Retirement 2015 Scheme

Duncan retires with 35 years' service in the 2015 England and Wales scheme. This is 7 years' 5 months ahead of Duncan's NPA of age 68. On retirement, Duncan has built up pension rights in his pension account of £31,115.00. NHS Pensions applies a factor of 0.682 to reflect early payment meaning that Duncan's pension on retirement will be £21,220.43. Duncan can choose to exchange pension for PCLS at 12:1.

3. Late retirement

In this section we explore the rules which apply if a member retires later than their NRA and the implications of multiple NRAs.

In all sections of the scheme, members can carry on working beyond their NRA and build up further benefits to a maximum of age 75. This may be subject to maximum membership as shown below. On attainment of age 75 the member becomes entitled to benefits without a break in employment.

As is the case with normal retirement, members normally need to have left all NHS employment for 24 hours in order to claim benefits. There are some exceptions to this for certain members with multiple tranches of benefits as noted below.

Benefits claimed after the NRA which applies to them may be uplifted by actuarial factors to reflect the fact that they will be paid, on average, for a shorter period of time. The rules for each scheme/section are shown below.

1995 Section:

- Benefits are not increased if paid late
- Late retirement is subject to 45 years' maximum pensionable membership. Special class members and MHOs (see **note 2**) are restricted to 40 years' calendar length membership by age 55 and to 45 years' membership overall.
- Members claiming deferred 1995 section benefits who also have 2008 section benefits don't need to take a 24 hour break from NHS employment. In this

case the 1995 section benefits are backdated to the member's 60th birthday.

- Members claiming deferred 1995 section benefits who also have 2015 career average benefits do not need to take a break in NHS employment. In this case the 1995 section benefits are backdated to the member's 60th birthday.

2008 Section:

- Benefits built up to NRA (age 65) are increased if paid late but only if claimed on entitlement. Deferred benefits are not uplifted if paid late.
- Late retirement is subject to 45 years' maximum pensionable membership
- On application, individuals with 45 years' service can continue to pay contributions in return for which the benefits payable will take into account the member's pay earned after age 65 and will be calculated using the most beneficial 45 years.

2015 Scheme:

- Benefits paid late are uplifted but only on retirement from active service. Deferred benefits are not uplifted if paid late.

All Sections:

- At age 75, all remaining benefits must be claimed and scheme membership must cease.

Deferred members become automatically entitled to their NHS pension at NRA and will need to claim them using form AW8P. If deferred benefits are claimed late, the arrears may be paid as a lump sum and the member cannot control the date of payment. The potential income tax implications of this should be considered by advisers.

Where the member has opted out of the Scheme but continued in NHS employment beyond their NRA, they'll only become entitled to their benefits on cessation of all NHS employment. This means that the benefits will not be backdated to the member's NRA.

Example 6 – Late Retirement 2008 section/2015 scheme

Ingrid, who joined the NHS Pension Scheme in England and Wales on 1st May 2008 retires aged 68 years and one month with 6 years' 11 months' service in the 2008 section and 26 years' service in the 2015 scheme. Because she was born on 1/3/73, two different NRAs apply. Her 2008 section benefits can be taken in full at age 65 and her 2015 scheme benefits can be taken in full at her State Pension age of 67 years. Her benefits will therefore be uplifted using actuarial factors to reflect late payment of 1 year, 1 month in respect of 2015 scheme benefits and 3 years' 1 month in respect of 2008 section benefits.

On retirement, Ingrid's final salary is £85,240 and she has built up career average pension rights under the 2015 scheme of £38,271. Her unadjusted pension rights are therefore as shown below.

2008 section pension:

$$£85,240 \times 17.246573/60 = £24,501.63$$

2015 scheme pension:	£38,271.00
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Total unadjusted pension:	£62,772.63
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Her adjusted benefits are as shown below.

2008 section pension with uplift:

$$£24,501.63 \times 1.109 = £27,172.31$$

2015 scheme pension with uplift:

$$£38,271 \times 1.038 = £39,725.30$$

Total unadjusted pension:	£66,897.61
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4. Flexible retirement

In this section we look at the implications for members' pensions of Scheme options for individuals to ease themselves into retirement by moving to a less stressful role and or reducing working hours.

Flexible retirement is known (perhaps confusingly) as "draw down" under the NHS Pension Scheme. The requirement to have left all NHS employment for 24

hours does not apply to benefits claimed under the flexible retirement ("drawdown") option. Member options depend on scheme/section membership.

1995 Section:

There is no "drawdown" facility for 1995 section members. However, members with 2+ years' service are able to protect a higher rate of pay for pension purposes if, after reaching NRA, their pay reduces by a minimum of 10% as a result of taking a less demanding role. This is known as 'Voluntary Protection of Pay' or 'Step Down'. Successful application means that benefits accrued to the date of the reduction will be based on the earlier higher rate of pay. To be eligible, pay must remain reduced for 1 year+.

2008 Section:

Flexible Retirement is possible from normal minimum pension age where a member moves to a less demanding role resulting in a pay reduction of 10% or more. Between 20% and 80% of benefits may be claimed whilst the individual remains in NHS pension scheme active membership, and the member can continue to accrue further benefits. Up to two "flexes" are possible prior to full retirement and pay must remain reduced for a minimum of 1 year in order for the client to retain eligibility for the pension claimed.

2015 Scheme:

- As for 2008 section.
- A transition member who has had a flex event under the 2008 section before moving to the 2015 Scheme can only have one further flex before full retirement.

5. Working after retirement

If you frequently work with clients who are or who have been members of the NHS pension scheme you will be aware that it is not uncommon for individuals to wish to return to work following retirement. This section sets out the key rules which apply where a client returns to work having claimed benefits.

Importantly, how the rules apply depends on the benefits which have been claimed and not on the NHS scheme or section of which the individual was a member at the point of leaving/retirement:

1995 section benefits claimed

- There must be a minimum 24 hour break before the individual returns to NHS employment in order to avoid their NHS pension being suspended. NHS pension will also be suspended if the individual works more than 16 hours per week in the first calendar month. This 16 hour rule does not apply if the retirement benefits taken was on the grounds of ill-health, redundancy of business efficiency or if the returning member is aged over 75.
- Pensionable re-employment under the NHS pension scheme is not permitted. 2 exceptions apply:
 - Members who retired on the grounds of ill-health and return before age 50. In this case they re-join the 2015 Scheme
 - Members who retired between 1st April 2008 and 30th September 2009 may, after a waiting period, join the 2008 Section or the 2015 Scheme depending on whether they are covered by transitional protection (see **section C**) or not.
- All other members who are re-employed by the NHS having claimed 1995 section benefits and are eligible workers must be auto-enrolled by their employer into an alternative pension scheme.
- A member's NHS pension may be reduced £ for £ if their earnings following NHS re-employment plus any unearned element of their NHS pension exceed their pre-retirement NHS pensionable pay (**note 4**). This reduction is known as abatement. The abatement continues until the pensioner reaches age 60 and applies to the following 1995 section pension types:
 - Special class and MHO retirements
 - Tier 1 and 2 ill-health retirements (including early payment of deferred benefits on the grounds of ill health)
 - Early retirement on the grounds of efficiency. (In this case there is no severance payment so early payment of benefits is funded by the employer)

2008 section benefits claimed

- Pensionable re-employment under the NHS scheme is permitted subject to a maximum of 45 years' membership and maximum age of 75. On application, individuals with 45 years' service can continue to pay contributions in return for which the benefits payable will take into account the member's pay earned after age 65 and will be calculated using the most beneficial 45 years. Scheme/section membership on re-joining depends on whether the individual continues to benefit from transitional protections
- There must be a minimum 24 hour break before the individual returns to NHS employment in order to avoid their pension in payment being suspended. This does not apply where the member has only taken part of their benefits under the "drawdown (flexible retirement) option
- A member's NHS pension will be reduced £ for £ if their earnings following NHS re-employment plus any unearned element of their NHS pension exceed their pre-retirement pensionable pay (**note 5**). This reduction is known as abatement. The abatement continues until the pensioner reaches age 65 and applies to the following 2008 section pension types:
 - Tier 1 and 2 ill-health retirements including early payment of deferred benefits on the grounds of ill-health
 - Early retirement in the interests of efficiency. (In this case there is no severance pay so early payment of benefits is funded by the employer).

2015 Scheme benefits claimed

- Pensioners can re-join and carry on accruing benefits up to age 75
- There must be a minimum 24 hour break before the individual returns to NHS employment in order to avoid their pension in payment being suspended. This does not apply where the member has only taken part of their benefits under the "drawdown (flexible retirement) option

- A member's NHS pension will be reduced £ for £ if their earnings following NHS re-employment plus any unearned element of their NHS pension exceed their pre-retirement pensionable pay. This reduction is known as abatement. The abatement continues until the pensioner reaches the later of age 65 and their State Pension age (**note 4** and **note 5**) and applies to the following 2015 scheme pension types:
 - Tiers 1 and 2 ill-health retirements including early payment of deferred benefits due to ill health
 - Early retirement in the interests of efficiency. (In this case there is no severance pay so early payment of benefits is funded by the employer).

6. Exceptions and anomalies

In this section we look at some of the main factors which can impact on how benefits build-up and/or how they are calculated at retirement.

Scheme Optants Under “Choices/Choice 2” Exercise

When the 2008 Section was introduced, all members of the 1995 section were given a one-off opportunity to transfer all service into the 2008 section. This exercise was completed on 31st March 2012. This option was re-opened prior to the 2015 pension reforms to allow all continuing 1995 section members not covered by “full protection” (see **section C**) to reconsider whether a transfer of 1995 section benefits to the 2008 section would be advantageous. Optants under the Choice 2 exercise were required to join the career average scheme on 1st April 2015 even if they had tapered protection. (see **section C**)

The amount of membership optants were credited with as a result of such a transfer was dependent on their age as at 1st October 2009. Those aged over 60 as at that date do not get a “day for day” service credit, but instead, the 1995 section service to be transferred is subject to a conversion factor. The pension payable is then based on 1/60th accrual rate and (although the 2008 Section does not normally pay an automatic lump sum), there is also a lump sum payable based on service to 31st March 2008 and a 1/80th accrual rate.

Protection – Opt outs

Members of the 2008 Section were given a one-off option to opt out of transitional protection arrangements and instead enter the 2015 career average scheme on 1st April 2015. This option was offered because the higher accrual rate under the 2015 scheme may have been more beneficial for some individuals, particularly those expecting no pay awards. Further information on transitional protections is available in **section C**.

Part-timers

Where your client works part-time, any final salary benefits will normally be calculated using actual membership and full-time equivalent pay. For example, an individual with actual earnings of £34,000 who has worked 60% of full-time hours for 26 years will normally have benefits calculated using the full-time equivalent pay of £56,667 and 15.6 years' membership.

Mixed Employment

You may come across practitioners who have also accrued rights as a scheme officer. Where the officer rights were accrued pre-April 2015 (ie they are final salary rights), the member will receive benefits calculated in the way that is most favourable to them. Where the officer rights were accrued under the 2015 career average scheme, they will be calculated separately, but will be shown as a single total on the member's statement.

Early Retirement Reduction Buy-out elections (ERRBO elections)

2015 scheme members with an NPA over age 65 have the option to buy out the reduction which would be applied to their benefits on early retirement. They can agree to buy out 1, 2 or 3 years' reduction subject to an effective retirement age no younger than age 65. For example, a client with a 2015 scheme NPA of age 66 can buy out 1 year's reduction and retire at age 65 with unreduced benefits. A client with a 2015 scheme NPA of 68 can buy out 1,2 or 3 years' reduction and retire at respectively age 67, 66 or 65 with unreduced benefits.

Advisers therefore need to ensure they understand the details of any ERRBO agreement their client has entered into before using estimates of projected benefits as part of retirement planning. Further information including details of what happens if your client has terminated an ERRBO contract early and what happens if your client retires before their ERRBO early retirement age can be found [here](#)³ for members in England and Wales and [here](#)⁴ for members in Scotland.

Additional Pension (AP)

Members of all scheme sections who are in good health have the right to buy additional scheme pension either for themselves alone or for themselves plus additional pension for dependants in the event of their death. The pension purchased is pension under the scheme of which the members are a member at the time of the election and must be taken together with main scheme benefits. The exception to this is where a member retires flexibly. In this case they can choose to take either all or none of their AP benefits.

1995 section members have the option of choosing a selected retirement age in relation to their AP. This must be either age 60 or age 65. As AP benefits must be taken at the same time as main scheme benefits, this means that a client who selects a retirement age of 65 in relation to their AP, but retires at age 60, will suffer a 5 year actuarial reduction to the portion of their pension which is derived from the AP. More broadly, AP mirrors main scheme benefits in terms of how actuarial adjustments are applied:

- AP benefits taken early are always reduced
- AP benefits bought under the 1995 section are not uplifted if taken late
- AP benefits bought under the 2008 section or 2015 scheme are uplifted if taken late

It's also worth noting that AP benefits are revalued both before and after coming into payment. Once taken, AP is revalued in the same way as the main scheme pension but before coming into payment, the revaluation rate depends on when the contract commenced. If the member's AP application was made before 1/4/11, it will be revalued by RPI. Applications made after that date attract a revaluation rate which is currently in line with CPI. These revaluation rates will impact any projections of estimated benefits you may make for your client.

It is therefore important that you understand the details of any AP contract your client has including (for 1995 section clients only), the selected retirement date and date of application, before providing any estimate of benefits.

Further details including information on termination of AP contracts and the implications of ill-health can be found [here](#)⁵ for members in England and Wales and [here](#)⁶ for members in Scotland.

7. Claiming retirement benefits - options

a Trivial commutation

Where the retiree's pot is very small, trivial commutation is available under all NHS Schemes/ sections. However, it is not possible to commute to a lump sum in the following circumstances:

- If the member has allocated part of their pension (see **sub-section 7b** below)
- If the member has been paid a trivial commutation lump sum by another scheme more than 12 months previously (unless the lump sum was £10,000 or less)
- If the member has GMP rights but has not reached their GMP age

3 www.nhsbsa.nhs.uk/sites/default/files/2019-05/ERRBO%20factsheet%20-%2020190510-%28V8%29.pdf

4 www.pensions.gov.scot/nhs/your-membership/your-contributions/early-retirement-reduction-buy-out-errbo

5 www.nhsbsa.nhs.uk/sites/default/files/2019-09/Added%20Benefits-Additional%20Pension%20factsheet-20190903-%28V8%29%20%20%20%20%20%20%20%20%20.pdf

6 www.pensions.gov.scot/nhs/employers/increasing-benefits

- If the member is under age 55 (age 50 for those with a protected pension age or any age for those meeting the ill-health condition)
- If the member became deferred before 31st March 2000 and hasn't reached their normal pension age

b Allocation

Retiring members are able to elect to give up part of their own pension to provide a pension for a beneficiary in the event of the member's death. This is over and above any pension a spouse/civil partner/eligible partner/eligible child is entitled to under scheme rules. An election results in the member's pension being permanently reduced and cannot be withdrawn or changed once accepted. Members choose to allocate by sending a completed form to NHS Pensions together with their retirement application form.

c Pension Commutation

Provided the member has service on/after 1st April 2008, they are able to exchange pension income for tax-free cash at a rate of 12:1 in order to elect a pension commencement lump sum (PCLS) up to the maximum permitted by tax law (25% of the capital value of their NHS benefits being claimed at that point and is subject to the LTA).

Transition members with both final salary and career average benefits can choose to commute different proportions of each tranche of benefits, but are restricted to maximum tax-free cash of 25% of the capital value of each tranche calculated separately.

Please note that the money purchase AVC arrangement is a separately registered pension scheme and PCLS must therefore be calculated on the value of any AVC fund on a standalone basis. Members wishing to take (additional) tax-free cash under their main NHS defined benefit scheme(s) are therefore not able to use their money purchase AVC to do so.

Pension commutation does not impact the amount of any long-term adult or children's pension which may become payable.

Calculations for 1995 section

Subject to the overall HMRC maximum, the approximate maximum additional tax-free cash (ie the additional amount over and above the standard 3/80ths lump sum) which can be taken from this section can be calculated as:

$$\text{(Pension} \times 5.36) - \text{standard } 3/80\text{ths lump sum} = \text{approximate maximum additional tax-free cash}$$

The cost of purchase can be calculated as:

$$\text{Additional tax-free cash} / 12 = \text{deduction from annual pension}$$

Calculations for 2008 Section and 2015 Scheme

Subject to the overall HMRC maximum, the approximate maximum tax-free cash which can be taken from these sections can be calculated as:

$$\text{Pension} \times 4.28 = \text{approximate maximum tax-free cash}$$

The cost of purchase can be calculated as:

$$\text{Tax-free cash} / 12 = \text{deduction from annual pension}$$

N.B. Members who moved from the 1995 Section to the 2008 Section under the "Choice" exercise continue to have entitlement to an automatic lump based on the amount of membership accrued to 31st March 2008 which was moved. This lump sum is taken from the member's 2008 Section pension at a rate of 12:1 and is not optional. This calculation should not be used where this applies.

8. Retirement summary

	1995 section	2008 section	2015 scheme
NRA (standard)	60	65	Later of age 65 and member's SPA
NRA (special classes)	55	N/A	N/A
Early Retirement Reduction (main benefit)	Yes	Yes	Yes
Minimum retirement age (normal health)	50 (in service before 6/4/06) 55 (all others)	55	55
Late Retirement Uplift (main benefits)	No	Yes (Benefits accrued to age 65) Retirements from active service only	Yes Retirements from active service only
Early Retirement Reduction (AP)	Yes	Yes	Yes
Late Retirement Uplift (AP)	No	Yes	Yes
Voluntary Protection of (higher) pay	Yes	No	No
Flexible Retirement (NHS drawdown)	No	Yes 10% pay reduction	Yes 10% pay reduction
Abatement of pension on return to work	Yes in certain circumstances	Yes in certain circumstances	Yes in certain circumstances

i ADVISER HINTS AND TIPS!

1. Allocation

- Because an allocation election has the effect of permanently reducing the member's own pension, it may be an option worth considering for clients with a lifetime allowance excess.
- Any allocation to a child who is over age 23 and who is not dependent on the member due to physical or mental impairment will be an unauthorised payment subject to a tax charge. Advisers should be aware of this if using Allocation as part of death planning arrangements

2. Remember that the value of any late retirement uplift is included in the member's pension input.

3. Contributions under an ERRBO agreement are relievable pension contributions but do not count towards the annual allowance. Advisers may therefore wish to explore this option with clients in the 2015 career average scheme who are looking to mitigate against the impacts on their NHS pension of early retirement, but who have annual allowance tax issues.

4. It's worth remembering that 2008 section benefits are calculated using a 10 year look back. So clients looking to ease into retirement by working shorter hours or moving to a less demanding role will in any event be entitled to benefits calculated using the most beneficial salaries earned in the previous 10 years regardless of whether the member is eligible for, or wishes to take flexible retirement.

5. If your client has Special Class status and takes voluntary early retirement before age 55, their benefits will be reduced as if their normal retirement age were 60. They will therefore not derive any benefit from the earlier NPA.

6. It may seem obvious, but do ensure you use the correct adjustment factors:

- Different factors are published for the scheme in Scotland vs the scheme in England and Wales.
- Different tables apply depending on whether benefits being enhanced/reduced are final salary or career average.
- Different factors may also apply depending on whether your client is retiring from active service or with preserved benefits.
- Different factors may apply to main benefits vs additional pension.

The factors are also updated from time-to-time, commonly following a scheme valuation so do ensure you're using the most recently published tables.

7. Pension arrears may be paid by the Scheme as a lump sum which has potential to cause income tax issues, for example where the arrears causes some of the member's income for the year to fall into a higher tax bracket. Deferred members should always consider claiming their pension on entitlement at their NRA in order to avoid this.



Case study 1

An NHS Transition member taking early retirement

The scenario

Carmel is a part-time physician in England aged 49 working 60% of standard hours. As a transition member she has 20 years' officer service in the 1995 Section and 4 years' officer service in the 2015 Scheme. She has a State Pension age of 67 which she'll reach in 2037 and her pensionable pay as at 31st March 2019 is £52,900.

Carmel takes financial advice as she'd like to retire before reaching her State Pension age and wants to understand the impacts on her eventual NHS benefits of doing so and plan accordingly. She has no plans to change her current working pattern.

Carmel is currently saving £950 per month into a savings account. Her repayment mortgage will be fully paid off within the next 5 years.

Current Benefits

Carmel benefits from the final salary link so her 1995 section benefits are calculated by reference to her pay under the 2015 scheme. The pay she earned over the year to 31st March was the highest. As she is a part-time officer her benefits are calculated using full-time equivalent pay and actual scheme service. This gives her the following 1995 section benefit entitlement:

Pension:

$$(\pounds 52,900.00 / 0.6) * 12/80 = \pounds 13,225$$

Lump sum:

$$(\pounds 52,900.00 / 0.6) * 12/80 * 3 = \pounds 39,675$$

As at 1st April 2019 she has 2015 career average pension rights built up in her pension account of £5,297.00. See **section 1** for details of how career average benefits are calculated.

Explaining the options

As she was in service before 6th April 2006 she can retire from age 50 but in that case both her 2015 scheme and 1995 section benefits will be reduced to reflect early payment. The adjustment is broadly between 4 and 5% for each year before the NPA they are paid.

- She can take her 1995 section benefits at age 60 without reduction, but her 2015 scheme benefits can only be claimed at age 67 without reduction. This means that her 2015 benefits will suffer a 7 year reduction if taken at age 60.
- If she retires at age 67, none of her benefits will be reduced, but importantly also her 1995 section benefits will not be increased for late payment
- She can choose to take only her 1995 section benefits at age 60 leaving her career average benefits for a later date but she must leave all NHS employment in order to do so.
- They agree to further consider the impacts to Carmel of:
 - Retiring at age 60
 - Retiring at age 67

Retirement at age 67

Assuming continuing part-time employment and using assumptions agreed with Carmel (2% annual pay increases and 3.5% in-service revaluation), an estimate of Carmel's 2015 scheme benefits at her State Pension age of 67 (£40,597 see **figure 1** below) is provided.

- In addition to the 2015 scheme career average pension, the 20 years part-time service Carmel has in the 1995 section will benefit from the final salary link if she has no break in service exceeding 5 years. They will not be increased for late



Case study 1 (continued)

An NHS Transition member taking early retirement

payment. Based on agreed assumptions, Carmel's pay at age 67 will be £75,554 giving her 1995 section benefits of:

Pension:

$$(\pounds 75,554 / 0.6) \times 12/80 = \pounds 18,888.50$$

Lump sum:

$$(\pounds 75,554 / 0.6) \times 12/80 \times 3 = \pounds 56,665.5$$

- Total Estimated Standard Benefits at age 67:

1995 section pension:	£18,888.50
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2015 scheme pension:	£40,597
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1995 section lump sum:	£56,665.5
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The adviser informs Carmel that this level of benefits will fall within the Lifetime Allowance (LTA) assuming 2% increases to the LTA each year between now and Carmel's 67th birthday.

Retirement at age 60

- If Carmel retires at age 60, she will have had less time to build benefits under the career average scheme. Based on agreed assumptions she will have an estimated unadjusted pension entitlement under the 2015 scheme of £23,863 (see **figure 1**). This entitlement will suffer an actuarial reduction of 7 years.
- Using agreed assumptions, Carmel's pay on retirement at age 60 will be £65,774.50. Under the final salary link, this will be used to calculate Carmel's final salary benefits accrued to 31st March 2015. These benefits will not be actuarially adjusted.

- Carmel's total estimated adjusted standard benefits at age 60 will therefore be:

1995 section pension:

$$(\pounds 65,774.5 / 0.6) \times 12/80 = \pounds 16,444$$

2015 scheme pension:

$$(\pounds 23,863 \times 0.695) = \pounds 16,584$$

1995 section lump sum:

$$(\pounds 65,774.5 / 0.6) \times 12/80 \times 3 = \pounds 49,331$$

- Carmel therefore faces an estimated reduction to her NHS income of £26,457.5 (calculated as £59,485.5 - £33,028) by retiring at her 1995 section NRA of age 60 rather than staying in the Scheme to her career average NRA of 67. The reduction to her automatic lump sum will be £7,334.5.

The way forward

- Having considered her options together with her adviser, Carmel decides that she will plan to leave NHS employment at age 60 claiming just her 1995 section benefits. She will leave claiming her 2015 career average benefits for a later date in order to avoid some or all of the actuarial reduction. Once she becomes a deferred member in respect of her 2015 scheme benefits, the accrued total will revalue in line with price inflation.
- Carmel has sufficient funds in her savings account to cover emergencies. Based on retirement at age 60, her benefits will not exceed the Lifetime Allowance and she has headroom under the Annual Allowance together with carry

Continued →



Case study 1 (continued)

An NHS Transition member taking early retirement

forward from the 3 previous years. Her adviser therefore recommends that she diverts the £950 per month she is currently paying into this account into a money purchase pension instead. This will have a number of benefits for Carmel:

- Depending on the funds selected, over the period to Carmel's retirement it is likely to produce a better return than her savings account
 - She will get tax relief on these contributions so the gross amount invested into her personal pension each month will be £1,187.5. (Where tax relief is due at 40%, the additional 20% can be reclaimed from HMRC)
 - She will be able to use the eventual value of the fund flexibly when she retires at age 60. This has a number of important advantages for Carmel
 - she can access cash without having to give up some of her NHS pension at the unfavourable rate of 12:1 to do so.
 - She can use the value of her fund flexibly as lump sums or regular income to supplement her 1995 section NHS pension over the limited period between retirement at age 60 and when she claims her 2015 scheme career average benefits.
- c When Carmel's mortgage is fully repaid she could potentially consider increasing her pension saving/improving her retirement benefits by:
- Increasing her regular contributions to her PP
 - Withdrawing funds from her savings account to pay as lump sum contributions into her PP
 - Paying ERRBO contributions under the NHS 2015 pension scheme. This might be suitable if Carmel decides she wants to retire before age 67 and would like the certainty of more pension for life.

Continued →



Case study 1 (continued)

An NHS Transition member taking early retirement

Figure 1 – Carmel's 2015 scheme estimated pension growth

Scheme Year End	Carmel's Age	Account brought fwd	Revalued Account	Pay	Accrual 1/54th	Pension Account Total
31/03/2019	49	£5,297.00	£5,482.40	£52,900.00	£979.63	£6,462.02
31/03/2020	50	£6,462.02	£6,688.20	£53,958.00	£999.22	£7,687.42
31/03/2021	51	£7,687.42	£7,956.48	£55,037.16	£1,019.21	£8,975.68
31/03/2022	52	£8,975.68	£9,289.83	£56,137.90	£1,039.59	£10,329.42
31/03/2023	53	£10,329.42	£10,690.95	£57,260.66	£1,060.38	£11,751.34
31/03/2024	54	£11,751.34	£12,162.63	£58,405.87	£1,081.59	£13,244.22
31/03/2025	55	£13,244.22	£13,707.77	£59,573.99	£1,103.22	£14,810.99
31/03/2026	56	£14,810.99	£15,329.38	£60,765.47	£1,125.29	£16,454.66
31/03/2027	57	£16,454.66	£17,030.58	£61,980.78	£1,147.79	£18,178.37
31/03/2028	58	£18,178.37	£18,814.61	£63,220.40	£1,170.75	£19,985.36
31/03/2029	59	£19,985.36	£20,684.85	£64,484.80	£1,194.16	£21,879.01
31/03/2030	60	£21,879.01	£22,644.78	£65,774.50	£1,218.05	£23,862.82
31/03/2031	61	£23,862.82	£24,698.02	£67,089.99	£1,242.41	£25,940.43
31/03/2032	62	£25,940.43	£26,848.34	£68,431.79	£1,267.26	£28,115.60
31/03/2033	63	£28,115.60	£29,099.65	£69,800.43	£1,292.60	£30,392.25
31/03/2034	64	£30,392.25	£31,455.97	£71,196.44	£1,318.45	£32,774.43
31/03/2035	65	£32,774.43	£33,921.53	£72,620.36	£1,344.82	£35,266.35
31/03/2036	66	£35,266.35	£36,500.68	£74,072.77	£1,371.72	£37,872.39
31/03/2037	67	£37,872.39	£39,197.93	£75,554.23	£1,399.15	£40,597.08

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SECTION B: TEACHERS' PENSION SCHEME

Introduction

Pension arrangements for teachers are devolved to the Scottish Ministers and the Northern Ireland executive and are thus administered independently from arrangements in England and Wales under separate legislation and separate registered schemes. Benefits for scheme members are provided on a final salary or career average basis (or a mix) depending on a number of factors including date of joining and “protection” status which are described in more detail below. Additionally, active members are able to contribute to money purchase AVC arrangements which sit as separately registered schemes alongside their respective defined benefit schemes and which are administered by an appointed AVC provider (currently Prudential). The structure of the Scheme in each jurisdiction therefore currently looks as shown below.

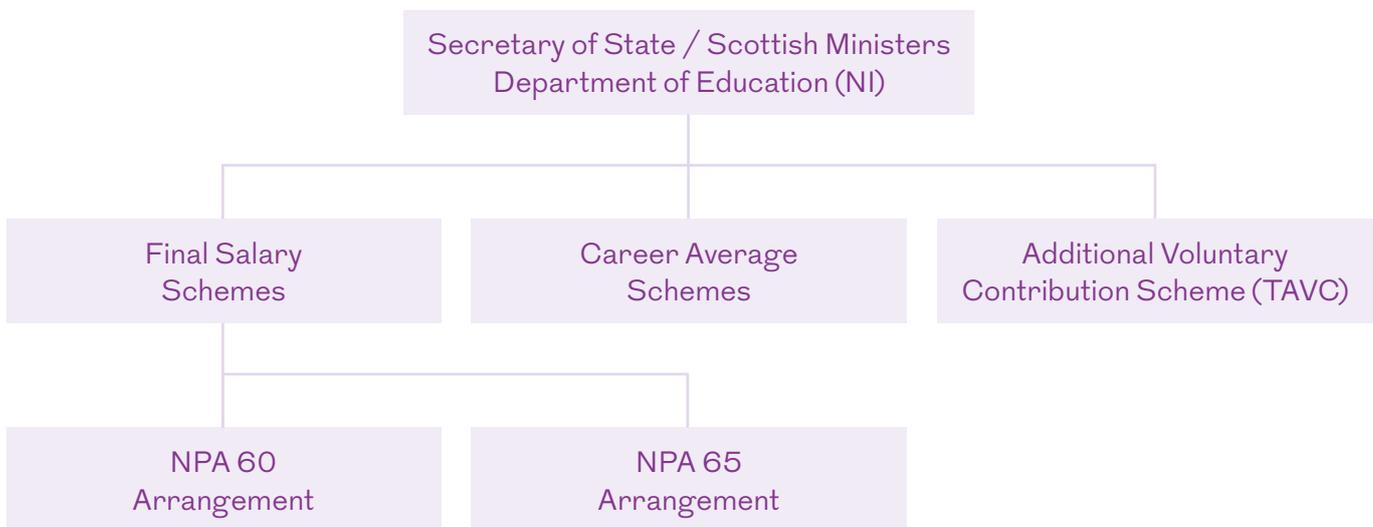
As a rule of thumb, the benefits provided are consistent across the UK to aid mobility of the workforce. However at a lower level of detail some differences persist and changes or amendments are often implemented at a later date in Scotland and Northern

Ireland than in England and Wales. Throughout this section we've highlighted these differences where they impact the scheme features described.

In each case, the defined benefit schemes are unfunded so members (including pension credit members) are unable to transfer the value of their accrued rights to another scheme providing flexible (including money purchase) benefits. Members with less than two years' qualifying service may however be able to make such a transfer and TAVC members normally have the right to make a full or partial transfer of their money purchase rights at any time (see **note 7**).

Teachers must have at least two years' qualifying service to be entitled to a pension on retirement. However, members who joined the Scheme before 6th April 1988 must have at least 5 years' qualifying service. All periods of service under the final salary and career average schemes added together count towards this minimum.

Structure of Teachers' schemes



1. Normal retirement

Teachers' benefits will be paid in full, without actuarial adjustment if they are claimed at the Normal Pension Age (NPA) which applies to them. This is sometimes referred to by the scheme as "Age Retirement". This section describes:

- the benefits which will be paid on normal/age retirement depending on the teacher's circumstances and scheme/arrangement membership,
 - how those benefits are calculated, and
 - normal/age retirement eligibility rules.
- a** In order to claim teachers' scheme benefits under age/normal retirement the member must have left pensionable service in the Scheme
- b** Deferred members are automatically entitled to benefits when they reach their NPA and benefits which are paid late are backdated. These backdated payments are paid by the scheme as a lump sum which is subject to income tax. Lump sum payments of this type could of course impact the member's tax position. It's therefore worth encouraging your clients to claim their benefits on a timely basis.
- c** Because of the evolving scheme design, teachers may have 2 or more tranches of benefits in different teachers' schemes/arrangement and these could have different normal pension ages attached to them. Special rules apply here:
- As long as the member has left pensionable service, when they reach their final salary NPA they can choose to take both final salary and career average benefits. In this case career average benefits being paid before the member's career average NPA will be reduced. See also the section headed "**Early Retirement**"

- Alternatively, a teacher who has left pensionable service and who attains their final salary NPA can choose to take only their final salary benefits and leave their career average benefits to a later date or until the member reaches their career average NPA.
 - A member must take any unclaimed final salary benefits on claiming their career average benefits (if any)
- d** The benefits which will be paid on normal retirement are described below:
- New entrants on/after 1st April 2015 will have accrued benefits solely in the 2015 career average scheme.
 - Members with "full protection" who have had no break in service exceeding 5 years will have accrued benefits solely in the final salary scheme. (See **section C** for more details on "protections" and the impact of breaks in service). The final salary scheme has two separate arrangements:
 - Members who joined the Scheme before 1st January 2007 (1st April 2007 for teachers in the Scottish and Northern Irish schemes) will continue to build benefits in the NPA 60 arrangement.
 - Members who joined the Scheme on or after 1st January 2007 (1st April 2007 for teachers in the Scottish and Northern Irish schemes) will continue to build benefits in the NPA 65 arrangement.

Teachers who:

- originally joined the NPA 60 arrangement but who left service for more than 5 years, or
- left and took a refund of their NPA 60 contributions

will have re-joined pensionable service in the NPA 65 arrangement. These individuals are said to have “mixed service”. In practice this means that the final salary benefits they built up to their break in service will be under the NPA 60 arrangement. Those accrued after re-joining will be under the NPA 65 arrangement. Individuals with “mixed service” who have full protection continue to accrue benefits under the NPA 65 arrangement unless they have a break in service at any time from 31st March 2015 exceeding 5 years.

- Members with “tapered protection” continue to accrue benefits under their “old” final salary scheme until a transition date determined by their date of birth. At that point accrual under the final salary scheme ceases and they join the 2015 career average scheme. The accrued final salary rights remain protected and, provided

certain conditions are met, will benefit from the final salary link after the member’s transition date. This link means that the member’s accrued final salary benefits will be calculated by reference to the pensionable pay earned under the 2015 Scheme as long as the member has no single break in service of more than 5 years. Under current regulations, this group will all have transitioned to the career average scheme by 1st February 2022. See **Section C** for further details of transitional protections and final salary link.

- Members already in service at 1st April 2015 (and those who re-join after that date following a break exceeding 5 years) and who do not meet the criteria for full or tapered protection, entered the 2015 career average scheme on 1st April 2015. Final salary benefits accrued to that date remain as protected final salary rights, and also remain linked the member’s pensionable pay earned under the 2015 career average scheme as long as they have no single break in service of more than 5 years.

- e The benefits payable from each scheme/section are shown in the table below.

FINAL SALARY SCHEME	NPA 60 Arrangement
Normal Pension Age	60
Pension Accrual	1/80th of final pay x pensionable service
Lump Sum Accrual	3/80ths x pensionable service x final pay Commutation for balance of PCLS for individuals with service on/after 1st January 2007/1st April 2007 at 12:1
Final Pay Definition	Better of: <ul style="list-style-type: none"> • Average of the best consecutive 3 years’ inflation-adjusted salaries earned over the 10 years prior to retirement, OR • The pensionable salary received in the last 12 months of employment before the date of retirement. (see note 8 and also section headed “ Exceptions and Anomalies ”)

Continued →

FINAL SALARY SCHEME	NPA 65 Arrangement
Normal Pension Age	65
Pension Accrual	1/60 of final pay x pensionable service
Lump Sum Accrual	No automatic lump sum Commutation at 12:1
Final Pay Definition	Better of: <ul style="list-style-type: none"> • Average of the best consecutive 3 years' inflation-adjusted salaries earned over the 10 years prior to retirement, OR • The pensionable salary received in the last 12 months of employment before the date of retirement. (see note 8 and also section headed " Exceptions and Anomalies ")

CAREER AVERAGE SCHEME 2015	
Normal Pension Age	Later of age 65 and member's State Pension age
Pension Accrual	1/57th of pensionable pay each year
Lump Sum Accrual	No automatic lump sum Commutation at 12:1
Active member revaluation	Treasury order (currently CPI) + 1.6%
Deferred member revaluation	PIA (currently CPI) (See note 11)
Final Pay Definition	N/A

Example 1 - NPA 60 member with full protection

Ruth retires normally with 37 years' and 65 days' service in the NPA 60 arrangement. Her final pay is £47,115.

Ruth's initial pension payable at age 60 is:

$$£47,115 \times 37.17808 / 80 = £21,895.57$$

Ruth's automatic lump sum payable at age 60 is:

$$£47,115 \times 37.17808 \times 3/80 = £65,686.70$$

Ruth could choose to maximise her tax-free cash by commuting pension income for extra lump sum at 12:1. Subject to the HMRC overall maximum, she

can work out her maximum additional lump sum using the formula:

$$\text{Pension} \times 33 / 14 = \text{maximum additional lump sum}$$

Taking maximum tax-free cash, her benefits at age 60 would be a bigger lump sum of £117,299 and a reduced pension of £17,595.

Ruth's pension (following any commutation for extra lump sum) will be adjusted in line with the Pensions Increase Act (currently annual CPI from the previous 1st September) on 1st April each year.

Example 2 - NPA 65 member with full protection

Iain retires normally with 21 years' 210 days' service in the NPA 65 arrangement. His final pay is £39,224.

Iain's initial pension payable at age 65 is:

$$£39,224 \times 21.57534 / 60 = £14,104.52$$

Iain doesn't receive an automatic lump sum, but he can choose to receive a lump sum by giving up some of his pension income at a rate of 12:1. Subject to it not exceeding the overall HMRC maximum, he can work out his maximum lump sum using the formula:

$$\text{Pension} \times 30 / 7 = \text{maximum lump sum}$$

Taking maximum tax-free cash, Iain will receive a lump sum of £60,448 and a reduced pension of £9,067.

Iain's pension (following any commutation for extra lump sum) will be adjusted in line with the Pensions Increase Act (currently annual CPI from the previous 1st September) on 1st April each year.

Example 3 - Career average member

Geeta has a State Pension age of 66. The NPA for her teachers' career average benefits is therefore also age 66. Geeta retired normally after 19 years' service in that scheme by which time she has built up pension rights of £16,782 in her pension account.

Her scheme will simply pay £16,782 as Geeta's starting pension unless she chooses to exchange pension income for tax-free cash at 12:1. Subject to it not exceeding the overall HMRC maximum, she can work out her maximum lump sum using the formula:

$$\text{Pension} \times 30 / 7 = \text{maximum lump sum}$$

Geeta's pension (following any commutation for extra lump sum) will be adjusted in line with the Pensions Increase act (currently annual CPI from the previous 1st September) on 1st April each year.

Example 4 - Transition member with final salary link

On 1st April 2015, Carlos had 7 years' 67 day's service in the NPA 65 final salary scheme. He transitioned to the career average scheme at that point when his pensionable pay was £37,112.

Carlos retires normally at age 65 when he is able to take both his NPA 65 benefits and his career average benefits in full without actuarial adjustment (his State Pension Age is 65). By retirement he had 14 years 120 days' service in the career average scheme, his final pay had reached £44,773 and he had built up career average pension rights of £16,824.

Carlos' benefits on retirement will be as follows:

NPA 65 pension:

$$£44,773 \times 7.18356 / 60 = £5,360.49$$

Career average pension:

$$\text{Banked amount} = £16,824$$

Carlos doesn't receive an automatic lump sum, but he could choose to receive a lump sum by giving up pension income for tax-free cash at the rate of 12:1. He doesn't have to exchange the same proportion of both his final salary and his career average pension, but in each case his lump sum is limited by HMRC maximums.

2. Early retirement

In this section we explore the circumstances under which teachers are able to retire earlier than their normal pension age, the impacts on their benefits of doing so and how early retirement applies where a teacher has more than one NPA. Early retirement is sometimes referred to under the Teachers' Scheme as retirements with Actuarially Adjusted Benefits (AAB).

- a** All teachers are able to take their benefits before attaining their NPA, but some conditions must be met:
- The teacher must be over age 55
 - For early retirements the individual must have ceased all teaching employment and their contract(s) of employment must end. The only exception to this is where the member is claiming some of their benefits as part of flexible retirement (see further information on “**Flexible retirement**” below).
 - If the member is seeking to retire from active service they must have employer consent to the early retirement. In the event the employer does not agree to the early retirement request, they cannot withhold their consent for more than 6 months. Any clients who are hoping to retire early from active service should therefore engage with their employer and be warned that in a worst case scenario their retirement plans could be delayed by up to 6 months.
 - The reduced pension (see **sub-section 2b** below) must not result in the individual's pension in respect of service between 6th April 1978 and 5th April 1997 falling below their GMP at GMP payment age.
- b** Teachers' scheme benefits which are taken before the NPA which applies to them are always subject to actuarial reduction in accordance with factors set out in statutory guidance. For this reason the scheme typically refers to early retirement as retirement with “Actuarially Adjusted Benefits”. The amount that their rights are reduced by depends on how many years and months before NPA they are

paid and in line with this the factor to use should be selected by reference to the member's age in years and months at retirement. The reduced benefit should be calculated before factoring in of any commutation of pension income for lump sum.

- c** As a broad, rule of thumb the reduction is in the region of 4-5% for each year before NPA the benefits are paid early. However, for career average members retiring from active service a so-called “standard reduction” of 3% a year applies for a maximum of 3 years between age 65 and the member's NPA where that exceeds age 65.
- d** Each element contributing to the member's pension entitlement should be treated individually. Different factors apply to main benefits, additional pension and pension debits.
- e** Because of evolving scheme design, teachers may have 2 or more tranches of benefits in different teachers' schemes/arrangements and these could have different normal pension ages attached to them. This will happen where:
- A teachers has “mixed service” i.e. final salary service in both in both the NPA 60 and the NPA 65 sections
 - A teacher has final salary NPA 60 service and career average service
 - A teacher has final salary NPA 65 service and career average service and their State Pension age exceeds age 65.

In these cases retirement at the earliest NPA will result in an actuarial reduction to only the second tranche of benefits. Where a teacher retires before attainment of their earliest NPA, both tranches of benefits will be subject to reduction but different factors will apply to each portion of benefits. The adjustments should therefore be calculated separately.

- f** Deferred members who retire early ARE required to take both final salary and career average benefits together.

g Teachers retiring from active service who have two or more portions of benefits may be required to take them together depending on their circumstances.

- Members with final salary and career average benefits who retire before their final salary NPA must take both tranches together.
- Members with final salary and career average benefits who retire at/after their final salary NPA can choose to take only final salary benefits and leave their career average benefits until attainment of their career average NPA or alternative later date.

Example 5 – Transition member early retirement at age 58

Aisling retires from active service at age 58 years and 5 months with 24 years' service in the NPA 60 scheme and 4 years 9 months' service in the career average scheme in England and Wales. Her State Pension age is 67. Her unadjusted benefits are as shown below.

NPA 60 Pension at early retirement:	£14,190
NPA 60 Automatic Lump Sum at early retirement:	£42,570
Career average main scheme pension in Aisling's account:	£4,817

Aisling's NPA 60 pension and lump sum will each be adjusted by a factor of 0.935 as these benefits have been claimed 1 year and 7 months early. Her career average pension will be adjusted by a factor of 0.725 in respect of prospective years of service to age 65 and by a standard reduction factor of 3% for each prospective year of service between age 65 and her career average NPA of 67.

Aisling's reduced benefits are calculated as:

NPA 60 adjusted pension:

$$£14,190 \times 0.935 = £13,267.65$$

NPA adjusted lump sum:

$$£42,570 \times 0.935 = £39,802.95$$

Career average adjusted pension:

$$£4,817 \times (1 - 0.06) \times 0.725 = £3,282.79$$

Aisling can choose to commute some of her adjusted pension income for extra lump sum at 12:1 to maximise her tax-free cash.

3. Late retirement

Teachers in all sections of the teachers' schemes are potentially able to carry on working beyond their NPA and build up further benefits to a maximum of age 75. However, the maximum pensionable service that can be used to calculate final salary pension is 45 years. There is no maximum pensionable service in the career average scheme. Members are able to continue teaching beyond age 75, but this post-75 service will not be pensionable. Moreover, retirement benefits are payable from the member's 75th birthday so continued working may not be efficient.

As is the case with normal retirement, some conditions apply to late retirement claims:

- the member must have left all pensionable service,
- if the member is deferred and has both career average and final salary benefits, both tranches must be claimed together. Benefits claimed late will be backdated.
- if the member has attained their final salary NPA and is retiring from active service, both final salary and career average benefits need not be claimed together. Benefits may be subject to actuarial uplift as explained below.
- Any unclaimed final salary benefit must be taken when career average benefits are claimed

Benefits taken after the NPA which applies to them may be uplifted by actuarial factors to reflect the fact that they will be paid, on average, for a shorter period of time. These factors and guidance on how they should be applied are normally available from scheme websites. The factor(s) to use in any particular case should be selected from the tables by reference to the member's age in years and months at retirement and should be applied to accrued benefits before any commutation of pension income for cash. Transition members and members with "mixed service" will have multiple benefits tranches and any uplift which applied should be calculated separately for each tranche.

The broad rules for application of actuarial uplift on late retirement for each scheme/section are shown below.

NPA 60 final salary benefits:

- No uplift applies to main benefits or additional pension (see **sub-section 6** below). AP is revalued to date of retirement. However, a late retirement factor is applied to any "scheme pays" debits.

NPA 65 final salary benefits:

- Uplift applies to retirements from active service. Applies to benefits accrued to age 65 only (see **note 9**)
- No uplift to retirements from deferred status
- No uplift to additional pension (see **sub-section 6** below). AP is revalued to date of retirement

Career average benefits:

- Uplift applies to all late retirements
- The relevant factor is applied to benefits built up to the member's career average NPA (see **note 9**) only

It's worth remembering that deferred members become automatically entitled to their teachers' benefits at their NPA. If deferred benefits are claimed late, the arrears are paid as a lump sum which is subject to income tax. This may result in unwanted tax consequences for the member. You may therefore want to encourage your clients who are retiring to claim benefits on a timely basis in order to avoid the build-up of pension arrears.

Members also become immediately entitled to benefits when they reach age 75, but in this case their pension is put into payment. Those members who continue in employment beyond this age will therefore need to consider the potential tax consequences of receiving salary and pension income simultaneously.

Example 6: Fully protected member retirement at age 66

Candace retires from the Scheme in England and Wales at age 66. She has "mixed" service of 21 years' 3 months' pensionable service in the NPA 60 section, and 11 years' 10 months' service in the NPA 65 section. She has also purchased Additional Pension (see **sub-section 4** below) of £250.00. Before actuarial uplift Candace's benefits at age 66 are:

NPA 60 pension:	£7,572.15
NPA 60 lump sum:	£22,716.45
NPA 65 pension:	£7,415.35
Additional Pension:	£250.00

The benefits she receives will be calculated as:

NPA 65 pension based on service to age 65 x late retirement factor, PLUS	$£6,899.01 \times 1.035 = £7,140.47$ (see note 9)
NPA 65 pension based on service after age 65, PLUS	$£7,415.35 - £6,899.01 = £516.34$
NPA 60 pension, PLUS	£7,572.15
Additional Pension, PLUS	£250.00
NPA 60 Lump sum	£22,716.45
Adjusted Benefits:	
Total Pension	$£7,140.47 + £516.34 + £7,572.15 + £250 = £15,478.96$
Lump Sum	£22,716.45

4. Flexible retirement

In this section we look at options for teachers to ease themselves into retirement by moving to a less stressful role and/or reducing working hours whilst claiming some of their teachers' scheme benefits. Employer consent is required for this option.

Flexible retirement is known as “phased retirement” under the teachers' schemes. Regardless of section/scheme membership, teachers can decide how much of their accrued benefits they wish to take up to a maximum of 75%. No break in employment is required to enter into phased/flexible retirement but any break the member does take must not exceed 6 months. In either case some conditions apply to the new role:

- Pensionable pay must reduce by at least 20%. There is no requirement for the reduced role to be with the same employer.
- The reduction in salary must be maintained for a minimum of 12 months
- The Phased Retirement election must be completed within 3 months of the employment in the reduced capacity beginning.

Whilst this option is broadly the same for all teachers regardless of which section/scheme they are a member of, there are a number of key differences:

NPA 60/65 final salary scheme:

Members can have two “flexes” before final retirement.

Career average scheme:

Members can have three “flexes” before final retirement but no more than two before age 60.

Transition members:

Members with both final salary and career average benefits can choose to take different proportions of each

5. Working after retirement

In this section we look at the rules which apply to teachers who return to teaching work after retirement. This is known in the Teachers' scheme as “Additional Service After Retirement” (ASAR). In certain circumstances this can result in the new service being pensionable under a different teachers' scheme and or suspension of their pension in payment. It's therefore important that you understand the rules when advising retirees who are thinking of returning to teaching work.

- A retired teacher's pension may be temporarily suspended if their pension plus earnings in the new employment exceed their “Salary of Reference”.

The latter is defined as the highest salary earned over the period leading up to retirement which was used to calculate benefits. For this purpose, “pension” includes not only all pensions under the teachers’ scheme (both final salary and career average), but also any mandatory or discretionary compensation paid for by the individual’s employer as part of premature retirement (see **note 10**). This process is known as “abatement” and may apply regardless of whether the new post-retirement employment is pensionable or not.

Treatment depends on the type of retirement and type of pension being paid:

Type of retirement	Final salary pension impact	Career average pension impact
Early retirement/ actuarially adjusted benefits	No abatement applies	No abatement applies
Normal retirement	Abatement may apply	No abatement applies, BUT Career average pension is included in the calculation to determine whether re-employment earnings exceed salary of reference
Late retirement	Abatement may apply	No abatement applies, BUT Career average pension is included in the calculation to determine whether re-employment earnings exceed salary of reference
Flexible (phased) retirement	No abatement applies	No abatement applies
Premature retirement (note 10)	Abatement may apply	No abatement applies, BUT Career average pension is included in the calculation to determine whether re-employment earnings exceed salary of reference
Ill-health retirement	Pension ceases	Pension ceases

In order to assess whether abatement applies or not, pensioner teachers are required to complete a Certificate of re-employment on taking up any new teaching role. The exception to this is where benefits have previously been claimed as part of flexible (Phased) retirement.

- b** If the new role is pensionable in the teachers’ scheme, the member will build up further scheme benefits unless they opt out. This is known as Additional Service After Retirement (ASAR). One year of ASAR must be completed for the individual to qualify for further benefits. Periods of ASAR can be added together and claimed together if the member wishes. In the event that one year of ASAR is not completed, and the member doesn’t intend to continue in any pensionable teachers’ employment the scheme will pay an “annuity” based on the member’s contributions + interest and this is added to their existing pension. ASAR will be in the career average scheme unless the member was already in ASAR immediately before 1st April 2012.

6. Exceptions and anomalies

In this section we look at some of the main factors which can impact on how benefits build-up and/or how they are calculated at retirement.

Part-timers

Part-time employment hasn't always been pensionable in the teachers' scheme. Part-time employments which commenced before 1st January 2007 (1st April 2007 for part-time members of the Scottish and Northern Irish Schemes) are only pensionable if the member so elects. Part-time posts which commenced on/after 1st January

2007 are automatically pensionable unless the member opts out. Where the employment is pensionable, the entire calendar period counts towards qualifying service, but benefits will only be based on earnings actually received. This qualifying service test also applies where the member is undertaking ASAR (see **sub-section 5** above).

Multiple Employments

Teachers may be employed in more than one teaching post. The impact this has on benefits depends on teachers' scheme the individual is a member of and the amount of total service:

	Final salary scheme	Career average scheme
Total pensionable service not exceeding 365 days	All service is pensionable	All service is pensionable
Total pensionable service exceeds 365 days	Service Exceeding 365 is not pensionable.	All service is pensionable
All contracts part-time	Employers agree which contracts are pensionable.	
	Full-time contract is pensionable.	
Total pensionable service exceeds 365 days	Part-time contracts are non-pensionable. Member may be eligible to join LGPS.	All service is pensionable
Any one employment is full-time	Transition members: Part-time contracts become automatically pensionable on transition to the career average scheme.	

Buy Out

Subject to certain limitations, career average scheme members with an NPA over age 65 have the option to buy out the reduction that would be made to their benefits if they retired before reaching their career average NPA. They can choose to buy out a maximum of 3 years' subject to an effective retirement age no younger than age 65. For example, a client with a career average NPA of 66 could buy out 1 year's reduction and retire at age 65 with unreduced benefits. A client with a career average scheme NPA of 68 could buy out up to 3 years' reduction in order to retire at age 65 with unreduced benefits. You therefore need to understand the details of any Buy Out contract your client has entered into before using estimates of projected benefits as part of retirement planning.

Further information on the Buy Out option can be found [here](#)⁷ for teachers in England and Wales and [here](#)⁸ for teachers in Scotland.

Faster Accrual

Career average scheme members also have the option to pay extra contributions to build up benefits at a faster rate in any particular year. Instead of the standard rate of 1/57th, eligible members can elect to accrue at a rate of 1/45th, 1/50th or 1/55th. It's therefore important to understand the details of any Faster Accrual contract your client has entered into/completed if you're calculating estimates of benefits as part of retirement planning. Further information on the Faster Accrual option in England and Wales can be found [here](#)⁹ and for members in Scotland, [here](#)¹⁰.

Additional Pension (AP)

Members of all scheme sections who are in good health have the right to buy additional scheme pension in multiples of £250.00, either for themselves alone, or for themselves plus additional pension for dependants in the event of their death. The extra pension purchased is a pension under the scheme of which the individual was a member at the time of the election. This is normally paid when standard main scheme benefits are paid. The exception to this is on flexible/phased retirements when individuals have the option to choose whether or not to claim the AP

Additional Pension taken before the relevant NPA is subject to actuarial reduction, but is not uplifted if claimed late. It is also index-linked on 1st April each year both before and after coming into payment. For AP in payment, the revaluation rate is the same as for main scheme pension and is therefore in line with

the rate applicable under the Pensions Increase Act (currently CPI). However, the revaluation rate which applies to AP before retirement depends on the date the AP contract started. Where the election date was prior to 22nd June 2010, pre-retirement revaluation is in line with RPI. Where the election date was on/after that date, pre-retirement revaluation is in line with CPI. As AP contracts impact the amount of benefits the member will have at retirement, it's important you understand the details of any contract, including the application date.

Further information on the AP option in England and Wales can be found [here](#)¹¹ and for members in Scotland, [here](#)¹².

Restricted Salary Provision

In order to avoid significant pay-rises late in a teacher's career leading to final salary pension benefits which are extraordinarily generous, the teachers scheme restricts the amount of late pay-rises which can be used in the calculation of benefits.

If pensionable pay in the last 3 years of service is increased by more than 10% or a fixed amount (which is reviewed annually), the pay used in the calculation of benefits is restricted to 10% or that fixed amount. If this "restricted salary" provision applies, member contributions which relate to the salary not used in the calculation of benefits are refunded.

In the case of transition members who benefit from the "final salary link" (see **section C**), this restriction is applied to the salaries earned in the career average scheme when calculating final salary benefits. However, the restriction is not applied to the accrual of benefits under the career average scheme.

7 www.teacherspensions.co.uk/members/working-life/paying-in/increasing-your-pension/buy-out-of-the-standard-actuarial-adjustment.aspx

8 www.pensions.gov.scot/teachers/your-membership/increasing-your-pension/teachers-early-retirement-reduction-buy-out-errbo

9 www.teacherspensions.co.uk/members/working-life/paying-in/increasing-your-pension/faster-accrual.aspx

10 www.pensions.gov.scot/teachers/your-membership/increasing-your-pension

11 www.teacherspensions.co.uk/-/media/documents/member/factsheets/managing-your-pension/additional-pension-factsheet

12 www.pensions.gov.scot/teachers/your-membership/increasing-your-pension

If your client has final salary benefits and has received one or more significant pay awards in the 3 years leading up to retirement, you may wish to check with the scheme whether this provision will apply before providing any estimate of benefits. Annual Benefit Statements normally state whether the Restricted Salary Provision has been applied to the calculation of benefits for past years.

Hypothetical Calculations

Hypothetical calculations may be relevant to any clients who:

- Have completed 2 years' qualifying service, AND
- Have final salary service, AND
- Have taken a break in service.

They are additional calculations which the scheme carries out automatically at retirement. In addition to calculating benefits for periods of service before and after the break in the standard way, the scheme also applies one of two different hypothetical calculations depending on the member's circumstances:

- a** If the member's average salary at retirement is higher than the salary at the time the member went on their break then a so-called "unrestricted hypothetical" calculation is applied. Under this method, the scheme uses the average salary at the date the member took their break in service (the "deemed date") and total service at retirement to calculate pension benefits. These benefits are then

revalued by Pensions Increase (currently CPI) each year between the "deemed date" and the member's retirement date.

- b** If the member's average salary at retirement is lower than their average salary at the time they went on their break then a so-called "restricted hypothetical" calculation is applied. Under this method the scheme uses the average salary at the date the member took their break in service (the "deemed date") and final salary service up to the date of the break to calculate pension benefits. These benefits are then revalued by Pensions Increase (currently CPI) each year between the "deemed date" and the member's retirement date.

The applicable hypothetical calculation will be completed as a comparison by the scheme against the standard calculations. If the hypothetical calculation including Pensions Increase produces the best outcome for the member then those are the benefits the member will receive.

These calculations have the effect of providing a benefits underpin to members with final salary service who've taken a career break. So there's a risk that any estimate of benefits you provide to an impacted client will be understated if you ignore the applicable hypothetical calculation. Whilst the calculations themselves are complex and arguably best left to scheme administrators, it is nevertheless helpful to understand which clients are impacted and to either add a relevant disclaimer to any benefits estimates provided or approach the scheme for more accurate numbers accordingly.

The examples in the table set out graphically if and how the hypothetical calculations apply.

■ Career average service ■ Final salary service

Example 1 – No hypothetical calculation



No hypothetical calculation will apply here as the member does not have any final salary service.

■ Career average service ■ Final salary service

Example 2 – No hypothetical calculation



No hypothetical calculation will apply here as the member has not had a career break.

Example 3 – Hypothetical calculation applies



In this example a restricted hypothetical calculation will apply and the outcome compared to that produced under the standard calculation.

Restricted hypothetical calculation. The member’s final salary service accrued to April 2015 will be calculated using the average salary of £51,000 at January 2017 (the “deemed date”). These benefits will then be revalued in line with Pensions Increase from January 2017 to December 2039.

Standard calculation. The member’s final salary service accrued to April 2015 is calculated using the average salary on retirement of £44,000. No revaluation. Note: The final salary link (see **section C**) applies in this example.

Example 4 - Unrestricted hypothetical calculation applies



In this example an unrestricted hypothetical calculation will apply and the outcome compared to that produced under the standard calculation.

Hypothetical calculation. The average salary of £29,000 at the start of the member’s break in service (the “deemed date”) and all final salary service accrued both before and after the break is used to calculate benefits. These benefits are then revalued between August 2009 and August 2020

Standard calculation. The average salary of £46,000 at retirement and all final salary service accrued both before and after the break is used to calculate benefits. No revaluation.

7. Claiming retirement benefits - options

a Trivial Commutation/ Small Lump Sums

Where the value of the retiree's benefits across all their pension arrangements is £30,000 or less, trivial commutation is available under all the teachers' schemes/sections. The member needs to apply for this at the time of submitting their retirement application. However, it is not possible to commute to a lump sum if any of the following apply:

- Teachers' Scheme benefits are already in payment in respect of the member
- A trivial commutation lump sum has been paid more than 12 months' previously (unless paid before 6th April 2006)
- A transfer payment has been accepted from a personal pension scheme
- A transfer value has been paid in the 3 years before the member's retirement application
- A transfer payment has been accepted from a scheme other than a personal pension scheme in the 5 years before the member's retirement application.
- The member has GMP rights and has not reached their GMP age.

TPS is also able to make Small Lump Sum commutation payments where the value of TPS benefits alone is £10,000 or less. This £10,000 applies separately to the final salary and career average schemes. However, a small lump payment cannot be made where:

- A transfer payment has been accepted from a scheme other than a personal pension scheme in the 5 years before the member's retirement application
- A transfer value has been accepted from a personal pension at any time
- A transfer value has been paid in the 3 years before the member's retirement application
- The member has GMP rights and has not reached their GMP age

b Pension Commutation

Provided the member has service on/after 1st January 2007 (1st April 2007 for members in the Scottish and Northern Irish schemes), they are able to exchange pension income for tax-free cash at a rate of 12:1 in order to choose up to the maximum pension commencement lump sum (25% of the of the capital value of their teachers' benefits being claimed at that point subject to the LTA).

Transition members with both final salary and career average benefits can choose to commute different proportions of each tranche of benefits, but are restricted to maximum tax-free cash of 25% of the capital value of each tranche calculated separately.

Please note that the money purchase AVC arrangement is a separately registered pension scheme and PCLS must therefore be calculated on the value of any AVC fund on a standalone basis. Members wishing to take tax-free cash under their main teachers' defined benefit scheme(s) are therefore not able to use their AVC to do so.

Pension commutation does not impact the amount of any long-term adult or children's pension which may become payable.

Calculations for 1/80th final salary section.

Subject to the overall HMRC maximum, the maximum additional tax-free cash (ie the additional amount over and above the standard 3/80ths lump sum) which can be taken from this section can be calculated as:

$$\text{Pension} \times 33/14 =$$

maximum additional tax-free cash

The cost of purchase can be calculated as:

$$\text{Additional tax-free cash} / 12 =$$

deduction from annual pension

Calculations for 1/60th and career average schemes

Subject to the overall HMRC maximum, the maximum tax-free cash which can be taken from these sections can be calculated as:

$$\text{Pension} \times 30 / 7 = \text{maximum tax-free cash}$$

The cost of purchase can be calculated as:

$$\text{Tax-free cash} / 12 = \text{deduction from annual pension}$$

8. Retirement summary

	1/80th Section	1/60th Section	2015 Scheme
NPA	60	65	Later of age 65 and member's SPA
Early Retirement Reduction	Yes	Yes	Yes
Minimum Retirement Age (normal health)	55	55	55
Late Retirement uplift (main benefits)	No	Yes (Benefits accrued to age 65)	Yes
Late Retirement uplift (AP)	No (AP is revalued)	No (AP is revalued)	No (AP is revalued)
Flexible Retirement	Yes 2 flexes	Yes 2 flexes	Yes 3 flexes (maximum 2 before age 60)
Pension abatement on return to work	Yes in certain circumstances	Yes in certain circumstances	No

i ADVISER HINTS AND TIPS!

1. Deferred teachers become automatically entitled to their benefits at NPA and arrears paid late are paid as a lump sum subject to income tax. If such a lump sum payment would have negative tax consequences for your client when added to other income, encourage them to claim their benefits on a timely basis to avoid arrears.

2. Flexible retirement conditions vary between the different teachers' schemes. Ensure you know which scheme(s) your client has benefits in before giving advice.

3. A teacher's final salary pension in payment can be suspended (abated) in certain circumstances if they return to work. Do ensure you understand the rules before giving advice. Section 5a above provides more details.

4. Teachers with final salary benefits who've had one or more significant pay awards in the 3 years leading up to retirement may have benefits calculated on restricted pay. Check annual benefit statements to see whether this applies to your client.

5. Remember that the value of any late retirement uplift is included in the member's pension input.

6. Contributions under a Buy Out agreement are worth considering for eligible clients for 2 key reasons:

- The top-up payments are relievable pension contributions but **do not count towards the annual allowance**. They might therefore be suitable for clients who are looking to mitigate against the impacts on their NHS pension of early retirement, but who have annual allowance issues.
- The reduction being bought out is the so-called "standard" reduction which applies

for a maximum of 3 years between age 65 and the member's career average pension scheme NPA. This standard reduction of 3% each year is lower than the actuarially neutral rate making Buy Out a relatively cost-effective way of indirectly increasing early retirement benefits.

7. It may seem obvious, but do ensure you use the correct adjustment factors:

- Different factors are published for the Schemes in Scotland and Northern Ireland,
- Different tables apply depending on whether the benefits being enhanced/reduced are final salary or career average,
- Treatment varies depending on whether the member is retiring from active service or with preserved benefits
- Different factors apply to main benefits vs additional pension
- Factors vary depending on the date certain elections were made

8. The factors are also updated from time-to-time, commonly following scheme valuation, so do ensure you are using the most recently published tables.

9. Because the NPA 60/65 final salary scheme and the 2015 career average scheme are separately registered, pensions tax law is applied to them individually. This means that clients whose benefits are worth £10,000 or less in the career average scheme can take a small lump sum even though they qualify for final salary benefits. Conversely, clients who qualify for benefits in the career average scheme, but whose final salary benefits are worth £10,000 or less are also able to take small lump sum. In either case this is subject to the conditions noted above.



Case study 2

A Teachers' Scheme transition member with flexible/normal retirement

The scenario

Clive is Head of Department aged 51 and is currently working full time at a school in England and Wales. As a transition member he has 20 years' 260 days' service in the NPA 60 section and 5 years' service in the career average scheme as at 31st March 2020. As Clive suffers from a recurring health problem, he's thinking of retiring early and wants to understand the implications for taking his teachers' pension benefits. His mortgage is paid off and he is saving on an ad hoc basis into a savings account. Clive's State Pension age is 67 years, which he'll reach on 21st January 2036.

Current Benefits

Clive benefits from the final salary link so his NPA 60 final salary benefits are calculated by reference to his pay under the career average scheme. His final pay is £47,920 giving him the following NPA 60 benefit entitlement at 31st March 2020:

Pension:

$$\underline{\underline{£47,920 \times 20.712329/80 = £12,406.68}}$$

Lump sum:

$$\underline{\underline{£47,920 \times 20.712329/80 \times 3 = £37,220.05}}$$

As at 31st March 2020 he also has 2015 career average pension rights of 4,337.5

Explaining the options

- Clive will be able to take early retirement from age 55 but in that case, he'll be required to take both tranches of his benefits together. He will suffer an actuarial reduction of 5 years to his NPA 60 benefits and of 12 years to his career average benefits. He'll also need his employer's consent, but this can't be withheld for more than 6 months.

- Alternatively, Clive could choose to retire at his final salary NPA of 60. In this case his final salary benefits would be paid in full and he could choose to leave his career average pension entitlement as a deferred benefit to take at age 67 thereby avoiding a large actuarial reduction to that portion of his teachers' pension.
- Clive doesn't have to keep working full-time if his health is poor. Once he reaches age 55, he can choose to take phased retirement. He could work in the same role for up to 3 days and/or move to a less demanding role in order to meet the requirement that his pay reduces by at least 20%. He can supplement his reduced teachers' income by claiming up to 75% of his benefits.
- As Clive has said he would prefer to retire early, his adviser confirms that Clive is happy for him to discount the options of retirement at his career average NPA of 67

Retirement at age 55

- If Clive retires at age 55, he will have built up an additional 4 years in his pension account. Using agreed assumptions (CPI and annual pay-rises of 2%) he will by then have unadjusted rights in the career average scheme of £8,551.2. This figure is shown as the total in Clive's pension account in **figure 2** below. This pension account total will be subject to the standard actuarial reduction of 3% (or 0.03) for each year between ages 65 and 67 and to a 10-year reduction using the appropriate reduction factor in respect of the years between 55 and 65. This is calculated as follows:

$$\underline{\underline{£8,551.2 \times (1-0.06) \times 0.625 = \\ \text{Early retirement pension of } £5,023.83}}$$



Case study 2 (continued)

A Teachers' Scheme transition member with flexible/normal retirement

In addition to the 2015 scheme career average pension, Clive must also take his final salary benefits on early retirement at age 55. As he has retained the final salary link, these will be calculated using his final salary in the career average scheme (calculated using agreed assumptions on pay-rises) and then adjusted using the appropriate factor to reflect that they are being paid 5 years early.

$$\frac{(\pounds 51,870.53 \times 20.71233 / 80) \times 0.811 =}{\text{Adjusted final salary pension of } \pounds 10,891.32}$$

$$\frac{(\pounds 51,870.53 \times 20.71233 / 80 \times 3) \times 0.811 =}{\text{Adjusted final salary lump sum of } \pounds 32,673.96}$$

- Clive's total estimated adjusted benefits at age 55 therefore are:

Pension:	£15,915.15
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Lump sum:	£32,673.96
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Retirement at age 60

- As Clive has reached his normal pension age for his final salary benefits, if he retires, these will be paid on an unadjusted basis using his final salary in the career average scheme as Clive has retained the final salary link. Using agreed assumptions, the adviser estimates that final pay will be £57,269 at age 60. See **figure 3** for details of how Clive's pay increases and how his career average benefits build up to age 60. This means that age 60 Clive will have estimated final salary benefit rights of:

$$\frac{\pounds 57,269 \times 20.71233 / 80 =}{\text{Final salary pension entitlement of } \pounds 14,827.18}$$

$$\frac{\pounds 57,269 \times 20.71233 / 80 \times 3 =}{\text{Lump sum entitlement of } \pounds 44,481.54}$$

- In addition to these final salary rights, Clive will have continued to build up further career average benefits. Using agreed assumption, the adviser estimates that Clive will have a further £15,404.39 pension entitlement related to that part of his service at age 60. (This is shown as the total in Clive's pension account in **figure 3**). If Clive also claims his career average pension at age 60, it will be subject to the standard actuarial reduction of 3% (or 0.03) for each year between the ages of 65 and 67 and to a 5 year reduction using the appropriate factor in respect of the years between 60 and 65. This is calculated as follows:

$$\frac{\pounds 15,404.39 \times (1 - 0.06) \times 0.779 =}{\text{Early retirement pension of } \pounds 11,280.02}$$

If Clive retires at age 60 and takes all his teachers benefits his adjusted total estimated benefits will therefore be:

Pension:

$$\pounds 11,280.02 + \pounds 14,827.18 = \pounds 26,107.2$$

Lump sum:	£44,481.54
------------------	------------

- However, as at age 60 Clive will:
 - have attained his final salary NPA,
 - be retiring from active service, and
 - be ending his teaching contract,

he can choose to leave the career average portion of his benefits to a later date, which would avoid some or all of the actuarial reduction which will apply if claimed before age 67. Although he wouldn't build up further rights, the deferred benefit would be adjusted for inflation each year (currently CPI). Using agreed CPI assumptions the adviser estimates that Clive's career average pension at age 67 would be £16,945.



Case study 2 (continued)

A Teachers' Scheme transition member with flexible/normal retirement

The way forward

- Clive's adviser summarises the position in line with the table shown below

	Option 1	Option 2	Option 3
Option Description	Retire at 55	Retire at 60 Claim all benefits	Retire at 60 Leave career average benefits deferred to age 67
Estimated adjusted pension	£15,915.15	£26,107.2	£14,827.18 (at age 60) PLUS £16,495 (at age 67)
Estimated adjusted lump sum	£32,673.96	£44,481.54	£44,481.54

- Clive considers that the size of the actuarial reduction makes option 1 unaffordable.
- Although he thinks that option 2 would give him a comfortable pension income in retirement, he would prefer to avoid the actuarial reduction of £5,665 that would apply to his estimated career average benefits on being claimed 7 years early
- However, under option 3, he doesn't feel that a pension income of £14,827 would meet his needs during the first 7 years of his retirement.
- The adviser recommends that they plan towards retirement at age 60 with a view to claiming only Clive's final salary benefits at that age. As Clive has disposable income and no expected pensions tax issues, the adviser recommends that he pay contributions to a money purchase pension. The fund value of this pension plan can then be used to supplement Clive's final salary pension over the period between age 60 and the date he claims his career average pension. This will mitigate some or all of the reduction which would otherwise apply.
- If Clive's ill-health continues worsens, but he is not eligible for ill-health retirement under TPS rules, the adviser recommends that Clive considers phased (flexible) retirement from age 55. This would allow him to reduce his hours and/or move to a less stressful role whilst claiming a portion of his benefits to supplement his reduced income. Only the portion(s) of benefits claimed before their NPA would be subject to actuarial reduction thus avoiding a "hit" on the total value.

Continued →



Case study 2 (continued)

A Teachers' Scheme transition member with flexible/normal retirement

Figure 2

Scheme Year End	Clive's age at end of period	Pension Account brought forward	Revalued Account	Pay	Accrual 1/57th	Pension Account Total
1/4/20 - 31/3/21	52y 2m	£4,337.50	£4,493.65	£48,878.76	£857.52	£5,351.17
1/4/21 - 31/3/22	53y 2m	£5,351.17	£5,543.81	£49,856.34	£874.67	£6,418.49
1/4/22 - 31/3/23	54y 2m	£6,418.49	£6,649.55	£50,853.46	£892.17	£7,541.72
1/4/23 - 21/1/24	55y	£7,541.72	£7,813.22	£51,870.53	£737.98	£8,551.20

Figure 3

Scheme Year End	Clive's age at end of period	Pension Account brought forward	Revalued Account	Pay	Accrual 1/57th	Pension Account Total
1/4/20 - 31/3/21	52y 2m	£4,337.50	£4,493.65	£48,878.76	£857.52	£5,351.17
1/4/21 - 31/3/22	53y 2m	£5,351.17	£5,543.81	£49,856.34	£874.67	£6,418.49
1/4/22 - 31/3/23	54y 2m	£6,418.49	£6,649.55	£50,853.46	£892.17	£7,541.72
1/4/23 - 31/3/24	55y 2m	£7,541.72	£7,813.22	£51,870.53	£910.01	£8,723.23
1/4/24 - 31/3/25	56y 2m	£8,723.23	£9,037.27	£52,907.94	£928.21	£9,965.48
1/4/25 - 31/3/26	57y 2m	£9,965.48	£10,324.23	£53,966.10	£946.77	£11,271.01
1/4/26 - 31/3/27	58y 2m	£11,271.01	£11,676.76	£55,045.42	£965.71	£12,642.47
1/4/27 - 31/3/28	59y 2m	£12,642.47	£13,097.60	£56,146.33	£985.02	£14,082.62
1/4/28 - 1/1/29	60y	£14,082.62	£14,589.60	£57,269.26	-	£15,404.39

SECTION C: TRANSITIONAL ARRANGEMENTS

1. Final salary link

Transition members with both final salary and new career average benefits retain a “final salary link” as long as there is “continuity of service”. Where this is the case, the member’s pensionable pay at the point they leave the career average scheme is used to calculate the final salary benefits. A member with final salary and career average service will have “continuity of service” provided there has been no gap in pensionable public service exceeding 5 years. Members who transitioned to the new career average scheme establish this link on final salary benefits accrued to 31st March 2015 (31st March 2014 for LGPS members in England and Wales). Tapered protection members establish this link on final salary benefits accrued as at the point they transition to the new career average scheme.

The final salary link is also retained where members move between public service pension schemes as long as they transfer their old scheme benefits and there is no gap in service between the transferring scheme and

the receiving scheme of more than 5 years. The relevant sending/receiving schemes’ transfer rules must be observed and this will normally mean that the transfer request must be made within 12 months of the member joining the new scheme. Where the final salary link applies, the member’s pensionable pay at the point they leave the career average arrangement of the receiving scheme is used to calculate the final salary benefits accrued under the transferring public service pension scheme. If the member does not transfer their old scheme benefits then the final salary link under the new scheme is lost.

In the NHS Pension scheme, the final salary link applies to officer transition members only. Practitioner transition members will only be entitled to the final salary link (or equivalent) in respect of any officer membership they may have had. In some cases, the officer membership is converted to a Flexible Value Earnings Credit pension.



ADVISER HINTS AND TIPS!

1. A move to a lower paid role could result in calculation of final salary benefits using the new, lower salaries in the career average scheme. Where the new lower paid role is in a different public service pension scheme the client should think carefully before transferring benefits in order to avoid disadvantageous final salary linking.

2. Where the client is moving schemes, retention of the final salary link is subject to the applicable transfer rules. Typically, the transfer will need to be undertaken within 12 months of joining the new Scheme. Do check individual rules with the sending and receiving schemes.

3. Remember pension input implications:

- Although clients who’ve transitioned to career average are not accruing any more years of service in the final salary section, they will still have final salary pension input if their career average salaries increase
- “Hidden” pension input can also occur where a member transfers benefits to retain the link under a new scheme. This is because the value of the benefits under the receiving scheme is higher than the transfer value.

2. Transitional Protections

Prior to implementation of the new career average schemes in 2015, the Government agreed some compromise measures with key unions which were intended to protect those closest to retirement from some or all of the impact of the reforms. Following high profile lawsuits brought by members in relation to both the Judicial Pension Scheme and the Firefighters' Pension Scheme, these measures have been found to give rise to unlawful age discrimination which cannot be objectively justified. The matter has been referred back to the Employment Tribunal for remedy in respect of the litigants and in a statement of 15th July 2019, the Government indicated that it intended applying the remedy across the whole of the public sector. The complexity of reaching agreement on what compensation for the different member groups should look like should not be underestimated. It may involve new legislation and is likely to be a lengthy process. Until remedy is agreed upon and implemented, schemes continue to apply the rules as they stand. These are set out below.

Royal London's comments on the complexities of agreeing compensation for those who have been discriminated against can be read [here](#)¹³.

The government statement on the application of the legal remedy can be found [here](#)¹⁴.

a Full Protection

The Public Service Pensions Act 2013 (PSPA) provides the framework for protections. It allows full protection to apply to individuals who were 10 years or less from their final salary NPA on 1st April 2012 and:

- Active members of their scheme on 31st March 2012

- Eligible to be members of their scheme on 31st March 2012 which includes:
 - Deferred members who re-join without a break of more than 5 years ending on or after 1st April 2012
 - Individuals who had opted out before 1/4/12 but subsequently re-join the scheme

Within this framework, schemes had flexibility to determine how full protection would apply. Some schemes have chosen to provide this protection only to active members on the 31st March 2012 cutover date.

Members meeting their scheme's specific criteria remain in their existing scheme and do not transition to a new career average scheme. The Local Government Pension Schemes in England and Wales, Scotland and Northern Ireland are an exception as these schemes were closed to all members regardless of age effective 31st March 2015 (31st March 2014 for the LGPS in England and Wales). For these schemes the qualifying criteria are the same, but protection has instead been provided in the form of a "statutory underpin". This is a test which ensures that an eligible member receives a pension at least equal to that which they would have been entitled to under the old final salary scheme. In short eligible members get the best of both worlds.

In all other cases where the member has a disqualifying break in service ending after 31st March 2015, protection will be lost and the member will enter the career average arrangement on re-joining. In the NHS scheme, a break is disqualifying if it is 5 years or more. In the teachers' scheme a break is disqualifying if it exceeds 5 years. For this purpose service in another UK public service pension scheme is disregarded.

¹³ www.professionalspensions.com/feature/3080698/fighting-reverting-public-sector-reforms-create-winners-losers

¹⁴ www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2019-07-15/HCWS1725

Example 1

Sheila has full protection under the NPA 60 arrangement of the Teachers' scheme. She left service in March 2016 to become a carer for elderly relatives and returns to service in April 2020. Sheila will retain her full protection status on return to pensionable service meaning she will re-join the NPA 60 arrangement. Additionally, the benefits Sheila had accrued up to the date her break commenced will be revalued at the more generous active member revaluation rate (B1 for more information on revaluation of Teachers' career average benefits).

Example 2

Stephen is a hospital administrator who has full protection under the NHS 1995 section. He left service in December 2016 to take up a role in Local Government and becomes a member of the Local Government Pension Scheme (LGPS). Stephen changes jobs again in July 2022 and re-joins the NHS pension scheme. Stephen retains his full protection status on return to pensionable service in the NHS because although his break is longer than 5 years, he has been in pensionable public service during the break. The NHS scheme will require evidence of Stephen's LGPS membership period.

b Tapered Protection

PSPA also permitted schemes to offer tapered (limited) protection to members who were more than 10 years, but less than a maximum of 14 years from their final salary NPA at 1st April 2012. Schemes have taken differing approaches to this:

Scheme	Taper Period
Teachers	10 to 13.5 years from NPA
Civil Service	10 to 13.5 years from NPA
NHS	10 to 13.5 years from NPA
Judicial	10 to 13.5 years from NPA
Firefighters	10 to 14 years from NPA
Police	10 to 14 years from NPA
Local Government Pension Scheme	No tapered protection
Armed Forces	No tapered protection

Tapered protection members move into the new career average scheme between May 2015 and April 2022 depending on their date of birth and the taper period being used by their scheme. This is known as their transition date and at this point the individual becomes a transition member.

In all cases where the member has a break in service exceeding 5 years covering or after 31st March 2015, protection will be lost and the individual will enter the career average scheme on re-joining. For this purpose service in another UK public service pension scheme is disregarded.

Where the break in service is 5 years or less, the member retains protection, but will only be allowed to re-enter the final salary scheme if the date of re-joining is before their transition date.

Example 1

Prisha has tapered protection under the NHS 2008 section. Her transition date is 1st June 2021. She left service in May 2017 and re-joins in January 2021. As her break is less than 5 years she retains her tapered protection and re-joins the 2008 section. She remains in the 2008 section until her transition date when she moves to the career average scheme.

Example 2

Kamal has tapered protection under the Teachers' NPA 65 arrangement. His transition date is 1st October 2020. Kamal left service in August 2019 and re-joins in January 2021. Although Kamal's break does not exceed 5 years, he has re-joined after his transition date and so enters the career average scheme. The final salary benefits he built up to August 2019 will be linked to the salaries he earns in the career average scheme.

Example 3

Mark has tapered protection under the NHS 1995 section. His transition date is 1st December 2021. Mark left NHS employment and joined the Civil Service in September 2015. He left the Civil Service in September 2019 to work in the private sector. Mark then re-joins the NHS scheme in October 2021.

- Although Mark's break is 6 years and 1 month in length, 3 years were spent in pensionable public service with the Civil Service and this period is disregarded when assessing whether the break in service exceeds 5 years
- He re-joins before his transition date

Mark therefore re-enters the final salary scheme until his transition date of 1st December 2021.

c Transition Members

This term is used by schemes to refer to those members with pre and post 2015 reform service. This will normally mean that the individual has both final salary and career average service, but there are some exceptions where old scheme service was also a form of career average:

- Civil Service Nuvos
- NHS Practitioners
- Certain LGPS Councillors (**note 3**)

NOTES

- 1** “Practitioners” are GPs, General Dental Practitioners and Ophthalmic Medical Practitioners. “Officers” includes most NHS employees, general practice staff, non GP providers and eligible staff working for an Independent Provider where access to the scheme has been granted.
- 2** Under the 1995 Section of the final salary scheme, nurses, physiotherapists, midwives and health visitors in post on or before 6 March 1995, together with Mental Health Officers (MHOs) with at least 20 years’ MHO service and in post on or before 6 March 1995 may have the right to take their benefits in full without reduction from age 55. Where the member is a man, this right applies to membership from 17th May 1990 only but membership accrued before that date may be claimed as actuarially reduced benefits. A number of conditions apply:
- The member must be in a special classes post immediately prior to retirement. Members retiring from deferred status revert to a normal pension age of 60 as do those who move to non-special class roles. Exceptionally, members who are appointed to a management role within their field of expertise may retain SC status.
 - SC members who have a break in service exceeding 5 years will not be eligible for SC status on re-joining the scheme.
- 3** Councillors in England no longer have access to the LGPS. Councillor members in Wales retain access to the pre-reform LGPS (as amended for councillor membership). Councillors in Scotland and Northern Ireland have access to the post-reform 2015 career average scheme.
- 4** Some 1995 section members remain subject to a different abatement formula whereby NHS pension income is reduced if the NHS pension in payment plus earnings in the new NHS employment exceed NHS earnings prior to retirement. This applies to:
- a Special class members who retire normally before age 60
 - b Deferred and pensioner members who left pensionable employment before 1st April 2008
- 5** A slightly different abatement calculation applies to individuals who moved to the 2008 section under the “Choice” exercise. In this case the pension amount which is subject to abatement is the amount remaining after the adjustment to provide the mandatory lump sum
- 6** Where a 2015 scheme member has an ERRBO agreement the calculation is referenced against the member’s reduced pension age. Benefits remain subject to abatement until the member reaches the normal pension age which applies to them. So, where abatement applies to a transition member, it will cease at age 60 in relation to 1995 section benefits, or at age 65 in relation to 2008 section benefits, but will continue until the later of age 65 and the member’s State Pension age in relation to 2015 scheme benefits.
- 7** Although TAVC members have wide-ranging transfer rights including the right to make a partial transfer, statutory transfer provisions apply to TAVC pension credit members. This means i.a. that pension credit members are unable to make partial transfers or to request a transfer if benefits in the form of a pension have previously been taken from the TAVC. Prudential, as appointed TAVC provider is able to provide further information on transfer eligibility and process.
- 8** Teachers with no post- 1st January 2007 (post-1st April 2007 for members of the Scottish and Northern Irish schemes) have benefits calculated as the best 365 in the last 1095 days before leaving service.
- 9** Where a teacher is retiring late and one or more late retirement factors need to be applied to benefits accrued to the relevant NPA(s), details of entitlements at NPA can be obtained from old annual benefit statements.

10 Premature retirement may be granted to a teacher aged 55 or over whose employment is terminated by their employer. If the member is granted premature retirement, the effect is that they receive unadjusted benefits but some of the costs of providing this must be paid for by the employer. This is known as “mandatory compensation”. Over and above this, the employer can purchase extra years’ membership that count towards the amount of service used to calculate benefits. This is known as “discretionary compensation”. Premature Retirement falls outside the remit of this paper, but further details for the Scheme in England and Wales can be found [here](#)¹⁵.

11 “PIA” refers to the Pensions (Increase) Act 1971. Public service pensions in payment are uprated by reference to this Act. The legislation has the effect of requiring public service pensions to be increased by the same percentage as is applied to the State Earnings Related Pension Scheme (SERPS). This rate is currently annual CPI from the September prior to the date of adjustment. The legislation has the effect of protecting public service pensions in payment against the effects of inflation.

12 Career average benefits continue to be indexed when the member leaves service, but in the Teachers’ and NHS schemes this is at a lower rate than when the member is in service. In both these schemes, if the member returns to pensionable service after a break of 5 years or less, the career average benefits built up in the member’s pension account are revised and index-linked at the higher, in-service rate. In practice, this is achieved by adjusting the member’s pension account on their return to pensionable employment. This adjustment can cause a “hidden” spike in pension input in the year the member returns to pensionable service.

NHS SCHEME "CHEAT SHEET"

Scheme benefits for Officers in NHS 1995 Section and 2008 Section

OFFICERS	1995 Section	2008 Section
Pension Type	Final salary	Final salary
Pension	1/80th x pay x service	1/60th x pay x service
Lump Sum	3/80th x pay x service + Commutation option at 12:1 for balance of PCLS for those with service on/after 1/4/2008	Commutation option at 12:1 for those with service on/after 1/4/2008
Final Pay definition	Pensionable pay earned in final year OR Pensionable pay earned in either of the 2 preceding years if higher	Average of the best consecutive 3 years inflation-adjusted pay over the final 10 years to retirement
Normal Pension age	60	65
Normal Pension Age for Special Class/MHO Members (note 2)	55	N/A
Minimum Retirement Age (Normal Health)	50(in service before 6th April 2006) 55 (all others)	55
Early Retirement Reduction (main benefit)	Yes	Yes
Late Retirement Uplift Retirement from active service (main benefits)	No	Yes (Benefits accrued to age 65 only)
Late Retirement uplift (deferred members)	No	No
Early Retirement Reduction (Additional Pension)	Yes	Yes
Late Retirement uplift (additional pension)	No	Yes
Voluntary Protection of (Higher) Pay	Yes	No
Flexible Retirement (Drawdown)	No	Yes
Retire and return to NHS scheme pensionable service	No (exceptions apply)	Yes
Abatement of pension on return to work	Yes in certain circumstances	Yes in certain circumstances
Additional Pension Option	Yes	Yes
Money Purchase AVC Scheme	Yes	Yes
Early Retirement Reduction Buy-out Option	No	No
Trivial Commutation	Yes	Yes
Allocation Option	Yes	Yes
Maximum membership (non special class/MHO)	45 years	45 years
Maximum membership (special classes and MHOs)	45 years (40 by age 55)	N/A
Maximum membership age	75	75

Scheme benefits for Practitioners in NHS 1995 Section and 2008 Section

PRACTITIONERS	1995 Section	2008 Section
Pension Type	Career average	Career average
Pension	1.4% of total inflation-adjusted annual earnings	1.87% of total inflation-adjusted annual earnings
Active member revaluation	PIA (note 11) + 1.5%	PIA (note 11) + 1.5%
Deferred member revaluation	PIA (note 11) (currently CPI)	PIA (note 11) (currently CPI)
Lump Sum	3/80th x pay x service + Commutation option at 12:1 for balance of PCLS for those with service on/after 1/4/2008	Commutation option at 12:1 for those with service on/after 1/4/2008
Normal Pension age	60	65
Minimum Retirement Age (Normal Health)	50(in service before 6th April 2006) 55 (all others)	55
Early Retirement Reduction (main benefit)	Yes	Yes
Late Retirement Uplift Retirement from active service (main benefits)	No	Yes (benefits accrued to age 65 only)
Late Retirement uplift (deferred members)	No	No
Early Retirement Reduction (Additional Pension)	Yes	Yes
Late Retirement uplift (additional pension)	No	Yes
Voluntary Protection of (Higher) Pay	No	No
Flexible Retirement (Drawdown)	No	Yes
Retire and return to NHS scheme pensionable service	No (exceptions apply)	Yes
Abatement of pension on return to work	Yes in certain circumstances	Yes in certain circumstances
Additional Pension Option	Yes	Yes
Money Purchase AVC Scheme	Yes	Yes
Early Retirement Reduction Buy-out Option	No	No
Trivial Commutation	Yes	Yes
Allocation Option	Yes	Yes
Maximum membership	45 years	45 years
Maximum membership age	75	75

Scheme benefits for all members in NHS 2015 Career average scheme

ALL MEMBERS	2015 Career average
Pension Type	Career average
Pension	1/54th of pensionable pay each year
Active member revaluation	Treasury Order (currently CPI) + 1.5%
Deferred member revaluation (note 12)	PIA (note 11) (currently CPI)
Lump Sum	Commutation option at 12:1
Normal Pension age	Member's State Pension age (minimum of age 65)
Minimum Retirement Age (Normal Health)	55
Early Retirement Reduction (main benefit)	Yes
Late Retirement Uplift Retirement from active service (main benefits)	Yes
Late Retirement uplift (deferred members)	No
Early Retirement Reduction (Additional Pension)	Yes
Late Retirement uplift (additional pension)	Yes
Voluntary Protection of (Higher) Pay	No
Flexible Retirement (Drawdown)	Yes
Retire and return to NHS scheme pensionable service	Yes
Abatement of pension on return to work	Yes in certain circumstances
Additional Pension Option	Yes
Money Purchase AVC Scheme	Yes
Early Retirement Reduction Buy-out Option	Yes
Trivial Commutation	Yes
Allocation Option	Yes
Maximum membership (non special class/MHO)	No limit
Maximum membership age	75

TEACHERS' SCHEME "CHEAT SHEET"

Scheme benefits for all members in the Teachers' final salary scheme

FINAL SALARY SCHEME

Normal Pension Age	60	65
Pension Accrual	1/80th of final pay x pensionable service	1/60th of final pay x pensionable service
	3/80ths of final pay x pensionable service	
Lump Sum Accrual	Commutation for balance of PCLS for individuals with service on/after 1st January 2007 (1st April 2007) at 12:1	No automatic lump sum Commutation at 12:1
Minimum pension age (normal health)	55	55
	Better of: <ul style="list-style-type: none"> Average of the best consecutive 3 years' inflation-adjusted salaries earned over the 10 years prior to retirement OR 	Better of: <ul style="list-style-type: none"> Average of the best consecutive 3 years' inflation-adjusted salaries earned over the 10 years prior to retirement OR
Final Pay Definition	<ul style="list-style-type: none"> The pensionable salary received in the last 12 months of employment before retirement date <p>(see also note 8 and the section headed "Exceptions and anomalies")</p>	<ul style="list-style-type: none"> The pensionable salary received in the last 12 months of employment before retirement date <p>(see also note 8 and the section headed "Exceptions and anomalies")</p>
Early Retirement Reduction (main benefit and additional pension)	Yes	Yes
Late Retirement Uplift – main benefit (retirement from active service)	No	Yes (benefits accrued to age 65 only)
Late Retirement Uplift – main benefit (deferred members)	No	No
Late Retirement Uplift – additional pension	No (AP is revalued)	No (AP is revalued)
Flexible Retirement	Yes 2 flexes	Yes 2 flexes
Retire and return to pensionable service (ASAR)	Yes	Yes
Abatement of benefits	Yes In certain circumstances	Yes In certain circumstances
Money Purchase AVC option	Yes	Yes
Additional Pension Option	Yes	Yes
Buy Out option	No	No
Faster Accrual Option	No	No
Restricted Salary Provision	Yes	Yes
Hypothetical Calculations	Yes In certain circumstances	Yes In certain circumstances
Trivial Commutation	Yes	Yes
Small Lump Sum commutation	Yes	Yes

Scheme benefits for all members in the Teachers' career average scheme 2015

CAREER AVERAGE SCHEME 2015

Normal Pension Age	Member's State Pension age (minimum age 65)
Pension Accrual	1/57th of each year's pensionable pay
Lump Sum Accrual	No automatic lump sum Commutation at 12:1
Active member revaluation	Treasury Order (currently CPI) + 1.6%
Deferred member revaluation (note 12)	PIA (currently CPI) (see note 11)
Minimum pension age (normal health)	55
Early Retirement Reduction (main benefit and additional pension)	Yes
Late Retirement Uplift – main benefit (retirement from active service)	Yes (benefits accrued to NPA only)
Late Retirement Uplift – main benefit (deferred members)	Yes (benefits accrued to NPA only)
Late Retirement Uplift – additional pension	No (AP is revalued)
Flexible Retirement	Yes 3 flexes (maximum 2 before age 60)
Retire and return to pensionable service (ASAR)	Yes
Abatement of benefits	No
Money Purchase AVC option	Yes
Additional Pension Option	Yes
Buy Out option	Yes
Faster Accrual Option	Yes
Restricted Salary Provision	No
Hypothetical Calculations	No
Trivial Commutation	Yes
Small Lump Sum commutation	Yes



Royal London

55 Gracechurch Street, London, EC3V 0RL

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