THE TEACHERS' PENSION SCHEME (ENGLAND AND WALES) – FINANCIAL NOTE

The Teachers' Pension Scheme (TPS) is a statutory, contributory, defined benefit scheme. It operates under the Teachers' Pensions Regulations 1997, as amended. These regulations apply to:

- teachers in schools and other educational establishments in England and Wales maintained by local authorities;
- teachers in many independent and voluntary-aided schools;
- teachers and lecturers in establishments of further and higher education.

Membership is automatic for full-time teachers or lecturers. From 1 January 2007 it is also automatic for part-time teachers or lecturers on appointment or change of contract.

Teachers and lecturers may opt out of the TPS.

THE TEACHERS' PENSION ACCOUNT

Teachers and lecturers are employed by various bodies, but their retirement and other pension benefits (annual increases payable under the Pensions Increase Acts) are paid from money provided by Parliament under the Superannuation Act 1972.

However the TPS is funded by teachers themselves, and contributions from their employers. These contributions are credited to the Exchequer under arrangements governed by the Superannuation Act 1972.

The Teachers' Pensions Regulations require an annual account to be kept of receipts and expenditure (including the cost of pensions increases). This is known as the Teachers' Pension Account. Since 1 April 2001, the money held in it is augmented by the Government at a set rate (currently 3.5%), based on the rate that investments generally are earning.

VALUATION OF THE TEACHERS' PENSION SCHEME

The TPS is formally reviewed at least every four years by the Government Actuary (GA) to decide at what level to set future contributions. There is also an interim valuation.

There are two kinds of contribution: the standard contribution and the supplementary contribution.

- The standard contribution is the amount of money that would pay for a teacher's retirement benefits if it were paid over the teacher's entire active service. This contribution is calculated as a percentage of the salary of a teacher working or entering service during the period over which the contribution rate applies.

- The supplementary contribution is payable if the GA finds that standard contributions will not be enough to pay for benefits to former and current teachers.

The 2005 review related to the period 1 April 2001 – 31 March 2004. It found that current pensions payments and the estimated cost of future benefits totalled £166.5m. The value of TPS's assets was £163.24m, leaving a shortfall of £3.26m to be paid for by the supplementary contribution.

These calculations assumed:

- a real rate of return 3.5% in excess of prices and 2% in excess of earnings;
- 1.5% real earnings growth;
- 6.5% gross rate of return.

From 1 January 2007, as part of the cost-sharing agreement between employers' and teachers' representatives:

- the standard contribution rate has been set at 19.75% of a teacher's salary;
- the supplementary contribution rate is 0.75%;
- the total contribution rate is therefore 20.5%, split between employer and employee (the employer pays 14.1%, the employee pays 6.4%);
- from 2008 there will be a 14% limit on employers' contributions.

A copy of the GA's report can be found on TeacherNet: www.teachernet.gov.uk/pensions

Department for Education and Skills
Mowden Hall, DARLINGTON DL3 9BG
Tel: 01325 392214
Fax: 01325 392212