



## **Pensions loss calculator – January 2012 Technical note**

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**The NUT Pensions Loss Calculator has been updated to reflect the formal Government proposals for the Teachers' Pension Scheme (TPS), set out in its "heads of agreement" published in December 2011, including accrual rates, revalorisation and early retirement factors and transitional protection provisions. This technical note again sets out the calculator's methodology in order to reassure users - and critics - of its continuing accuracy.**

### **Pay More**

The Government proposes tiered increases in all teachers' pension contributions, averaging an extra 3.2% of pay and ranging up to 6.0% of pay, with an initial increase in April 2012 and full implementation by April 2014. The calculator sets out the estimated monthly loss in your take home pay, after tax relief at higher or lower rate as appropriate, from April 2012 and from April 2014. The calculator is based on current income tax rates and bands and cannot take account of personal tax code variations due to individuals' financial circumstances which may cause marginal differences for those paid at or around the higher rate threshold.

### **Work Longer**

The calculator sets out your proposed new normal pension age or NPA (the age at which you can you're your pension entitlements in full). The Government proposes that individuals' TPS NPA for future accrual should be in line with their State pension age which will itself rise to 66 and thereafter eventually to 68, depending on year of birth, with individuals' NPA rising by one month for every two months of age. The calculator sets out your proposed TPS NPA rounded to the nearest six months.

"Transitional protection" will allow teachers within 10 years of current TPS NPA at 1 April 2012 to remain on that current NPA until retirement. All others face an increase in NPA for some or all future accrual, so that any teachers retiring earlier than their new NPA would receive some of their total pension on a reduced basis.

### **Get Less**

The calculator incorporates the Government's proposal that, from April 2015, further pension accrual will be based on "career average" pay rather than final pay at retirement with an accrual rate of 1/57 of pay; annual revalorisation of accrued pensions for serving teachers at CPI inflation plus 1.6%; and annual revalorisation of pensions in payment at CPI inflation rather than RPI inflation. It also incorporates its proposals relating to early retirement factors and transitional protection.

The first calculation shows the estimated cut in your pension at retirement if you still retire at your existing normal pension age (60 for pre 2007 entrants, 65 for post 2007 entrants). This comprises the reduction in future pension accrual due to the proposals on career average, accrual rate and revalorisation of accrued pensions; and the actuarial reduction in that pension due to its being taken earlier than new NPA. Career average pay for future accrual is assumed to be the higher of the mean values of existing pay and pay at retirement and of UPS1 pay and pay at retirement.

The second calculation shows the estimated loss in your lifetime retirement income, arising from the lower pension you would receive at retirement and the fourth proposal (lower annual increases in pensions in payment), calculated over the average 25 year retirement.

The calculator uses a future accrual rate of 1/57 per year with no automatic lump sum. Current rates are 1/80 per year plus automatic lump sum of 3/80 per year (pre 2007 entrants) and 1/60 per year with no automatic lump sum (post 2007 entrants). Pre 2007 entrants are assumed also to commute an equivalent lump sum payment from future accrual at a rate of 1:12. Actuarial reductions are calculated using current TPS NPA 65 reduction factors and proposed additional early retirement factors. Inflation is assumed to continue to display a 0.8% differential between RPI and CPI inflation. Earnings are assumed to continue to increase at the standard assumption for the Average Earning Index of CPI plus 2.25% per year. Estimates for pension losses for those within the tapered transitional protection group are based on ages rounded to the nearest six months.