



PENSIONS FOR NEW ENTRANTS



YOUR PENSION AND THE PROBLEMS

Guidance for members entering teaching after 31 March 2007

What are the benefits?

Most importantly, the scheme is a final salary scheme. Your pension is based on the salary you are earning in the period prior to retirement. The other important factor is length of service. You will receive $1/60^{\text{th}}$ of your final salary as annual pension for each year of service. Hence 30 years of service could give a pension of 50% of final salary. Most employees however wish to take a tax free lump sum at retiral. You will be able to do this but it will reduce your annual pension.

What are the drawbacks by comparison with pension arrangements for those retiring now?

Put briefly, you will only be able to collect your full pension entitlement at the age of 65. (It is currently 60.)

Can I do anything about this?

You can but you must start planning **as soon as possible**. All new entrants will (if the arrangements remain unaltered) still be able to retire at 60 but will lose about 5% of their pension for each year below the age of 65 at which they retire.

What is the solution?

Start planning now. Arrange to increase your pension benefits so that if you retire at 60 you will receive the same pension as you would have received under the old arrangements. The current rate of employee contribution is 6.4%. There is no longer a significant upper limit for contributions for serving teachers.

How?

You can buy additional pension up to a current limit of £5000 of annual pension (the amount to be increased over the years in line with inflation).

The problem might be best seen by an example. The figures relate to current salaries and costs but as one rises, so will the other to about the same extent.

Currently, a PT might retire with a salary of £40000. This would give a pension of about £18000 after 36 years of service. A new entrant who retires in the same circumstances in 35 years time would lose about £4500 of annual pension by retiring at age 60 rather than 65.

How much does it cost to buy additional pension?

See the modeller on the SPPA website (the SPPA is the body which administers state employees' occupational pensions in Scotland). It depends significantly on how long a period you pay over. Each "contract" to buy additional pension can last for up to 20 years but you can have several contracts e.g. a contract from age 25 to age 45 and a second contract from age 45 to age 60. Contracts can run concurrently.

A teacher aged 24 could buy an extra £2000 of annual pension by paying an additional £75 per month over 20 years. This £75 would be subject to tax relief and hence the true cost would be smaller.

Could I not simply accept a lower pension or go on teaching until I am 65?

Could you afford to do either? How do you know? Will you be able to teach until age 65?

Can you give me advice about other methods of increasing my pension?

We cannot do so. You need to see an IFA (Independent Financial Adviser). See the SSTA diary for our adviser. There are many others available. Be careful that the advice is truly independent and that you are not talking to a salesperson who is tied to the products of only one provider.

How will I know?

Shop around. Speak to colleagues. Check financial websites.

When?

Now! It is never too early.

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