

**TEACHERS' PENSION SCHEMES
2016/04**

WHO SHOULD READ: Members, Chief Executives, Directors of Education, Directors of Finance, HR Managers, Payroll Managers, Teachers' Unions and representatives

ACTION: For information

SUBJECT: End of contracting-out - April 2016 - Changes to the State Pension

The purpose of this circular is to:

- **Highlight changes to the State Pension and the end of contracting out**
- **Indexation of Guaranteed Minimum Pension**

As a public service employer, who currently offers a contracted out defined benefit pension scheme, the following information is to advise you of how the changes to the State Pension will affect you and your employees.

From 6 April 2016, the UK Government is introducing a new single tier State Pension for those reaching State Pension age on or after that date, replacing the current two-part State Pension.

As a consequence of the change, contracting-out of the additional State Pension for Defined Benefit schemes will come to an end. All public service employees with a contracted-out defined benefit pension scheme will be affected by this change. Importantly, you should note that this State Pension change will not impact on your employees Teachers pension scheme benefits administered by the SPPA.

Please see the attached letter from Department of Work and Pensions (DWP) which also explains the increase in National Insurance contributions.

More information can be found at: <https://www.gov.uk/contracted-out>

Further Information for Employers

From April 2016, you will pay the standard rate of National Insurance contributions instead of a lower contracted-out rate.

Department for Work and Pensions have produced supporting material for employers and employees which can be found at: <https://www.gov.uk/government/collections/state-pension-toolkit>



Further Information for Employees

The main implication of this change for scheme members is that from 6th April they will no longer pay the lower rate of National Insurance that came with being a member of a defined benefit, contracted-out, scheme. This will mean an increase in employee National Insurance contributions of around 1.4% of earnings between the relevant National Insurance thresholds, set each year by HM Treasury. Below are some examples showing how much extra National Insurance contributions may be payable by employees from 6 April 2016.

Earnings	National Insurance payable currently	National Insurance payable from 6 April 2016	Difference
£15,000 per year (£1,250 per month)	£58.66 per month	£69.36 per month	£10.70 per month
£27,000 per year (£2,250 per month)	£164.66 per month	£189.36 per month	£24.70 per month
£45,000 per year (£3,750 per month)	£307.65 per month	£352.76 per month	£45.11 per month

Further information on all the changes to State Pension can be found at:

www.gov.uk/yourstatepension

Indexation of Guaranteed Minimum Pension

The UK Government has set out plans to price protect the Guaranteed Minimum Pensions (GMP) of members of public service pension schemes. Further information is available on the HM Treasury website:

www.gov.uk/government/news/government-one-step-closer-to-introducing-new-state-pension-this-year

This policy will apply for those reaching State Pension Age on or after April 6th 2016 and before December 6th 2018, when the State Pension Age equalises between men and women. This means that public sector pension schemes will now be required to apply full indexation to GMPs in respect of those scheme members that reach State Pension Age during this period. This will ensure that these members will have equal payments for both men and women.

For information

The Letter and factsheet issued to Pension Schemes by the Department for Work and Pensions.



7. Public Sector
Letter.pdf



8 Public Sector
factsheet - final 7 12.

Contact information

Please contact the department of work and pensions if you have any enquiries about this circular.

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