UNDERSTANDING EDUCATION PENSIONS

A **guide** for schools, academies and MATs

dataplan education By IRIS

Contents

Introduction 3

The education pension landscape 4

What is the Teachers' Pension Scheme? 5

Employer obligations 6

Enrolment and opt-outs 7

Reporting information to the Teachers' Pension Scheme 8

The End of Year Certificate (EOYC) 8

Monthly Data Collection (MDC) 8

Monthly Contribution Reconciliation (MCR) - the future of Teachers' Pensions 9

Communicating with your employees 10

What is the Local Government Pension Scheme? 11

Enrolment and opt-outs 12

Monthly and annual returns 13

Contribution breakdowns 14

Communicating with your employees 14

The impacts of McCloud and Sargeant 15

Independent and private schools 17

A more connected future 18

Introduction

This is a guide to two of the most popular pension types in the country: the Teachers' Pension and the Local Government Pension Scheme. Although they have changed significantly over the years, both are still well-regarded as ways to reward, in later life, those who educate and help the nation's children and young people.

It is a complicated area, and one made even more so now many in the private sector are reconsidering how they can best deliver pensions for their staff while at the same time keeping the books balanced. So, although we will focus on the Teachers' Pension and the Local Government Pension Scheme, we will also consider this changing landscape.

We have written this guide with many different readers in mind. Some of you will be well-versed in the subject but looking to constantly fill in gaps in knowledge created by evolving pensions offerings. Others, meanwhile, will be newer to working with pensions but hoping for advice from a business with decades of experience in this field.

Dataplan has been providing payroll services since 1969. Our expert teams apply pensions through payroll; pay the contributions to the pension schemes; notify the pension schemes of starters, leavers and contract changes; carry out either monthly or annual returns reconciliations and oversee mechanisms surrounding retirement, ill health and death in service. We use this experience to create a complete payroll and pensions service for educational institutions while developing leading-edge applications and providing pension return data transfer.

We are confident that, no matter your background in the field of education, this guide will be the one-stop shop you need. We will delve into the complexities of pensions, simplify them where necessary, and discuss how experienced service providers like Dataplan can help.

George Serls

Head of Innovation & Change Management

Phyliss Downs

Head of Pensions

The education pension landscape

As previously mentioned, there are two main types of pensions within the education sector.

The first is the Teachers' Pension which, unsurprisingly, goes to anyone responsible for leading lessons in school classrooms. This includes both qualified and unqualified teachers.

The second is Local Government Pension Scheme is there for all other members of staff who play a crucial role in school life, including everyone from teaching assistants to catering staff.

Both pension types are defined benefit schemes and mean that your school or educational institution will have to deal with a level of complexity as well as compliance - getting it wrong can mean costly, budget-impacting repercussions. There can even be criminal implications.

Education pensions have seen major changes - from how they are reported to how staff save for them.

Education pensions can be a complex area to manage as an employer. They have undergone decades' worth of changes, bringing extra layers of complication. The shift from a so-called final salary scheme to a new structure has played a major part in this, as have subsequent age-related legal issues and the government's remedies for them. Meanwhile, other less contentious but equally important changes are underway. How the Teachers' Pension is handled is altering considerably - something we will come to when we discuss how Monthly Data Collection (MDC) is now moving to Monthly Contribution Reconciliation (MCR).

As we discuss the above, we will consider important statutory compliance factors, the way private institutions are adapting to growing costs, and how the technology Dataplan leverages helps educators manage staff pensions.

What is the Teachers' Pension Scheme?

The Teachers' Pension Scheme (TPS) is a statutory occupational pension scheme; therefore, all relevant employees between the ages of 16 and 75 are brought on board as a matter of course through automatic enrolment or via their contract, regardless of their full- or part-time status.

Understanding the Teachers' Pension Scheme is essential for all educational organisations.

The Teachers' Pension Scheme has one set of rules and one administrator covering the whole UK. The contract is managed under Capita, and it oversees the scheme on behalf of Teachers' Pensions and the Department for Education, supervised by The Pensions Regulator.

The Teachers' Pension Scheme requires all contributions to be paid no later than the seventh (for MDC) or fifteenth (for MCR) of the month, following the deduction of contributions. As an employer, you can administer the scheme via a portal, and members are also able to track and manage their pensions online. This gives pension members the advantage of being able to see the projected benefits of their scheme, as well as update crucial information like their personal details, should they change, as well as beneficiaries.

Alternatively, if you, as an employer, are outsourcing your payroll and pensions administration, you can complete a delegation form to authorise the company to administer the scheme on your behalf. However, only you, as the employer, can authorise these forms.

Employer obligations

Your obligations as an employer, regardless of whether the function is outsourced, are to:

- Opt all eligible employees into the scheme
- Manage opt-outs, opt-ins, and leavers
- Communicate with your employees regarding the scheme
- Make data submissions and employee and employer contributions payments by the deadline
- Follow the process of MDC (and/or MCR should your organisation have moved across to this reporting method)
- Produce and submit an End of Year Certificate (EOYC) and commission an independent audit
- Manage retirements
- Adhere to statutory obligations, including changes to the scheme

Retirement can be taken at the normal pension age, taken early (due to ill health or other reasons), or taken as part of a phased arrangement. Some employees choose to work at an education employer beyond the normal pension age. If you need advice on the employer's obligation during these critical times, you can contact us here.

Both the Teachers' Pension and the Local Government Pension Scheme use the career average revalued earnings (CARE) model to calculate a fixed pension which retired staff can rely on for life.

Contributions by employees to the CARE scheme do not closely relate to the pension the retiree will have. Instead, the teacher or staff member will have a fraction of their salary go into a 'pot', year on year. The money that goes in is annually adjusted for the cost of living in terms of the Consumer Price Index. Each year, money is added the same way.

When the person retires, they get that accrued money every year for the rest of their life.

Example:

A staff member earns £25,000. A fraction (say 1/60th) goes into the pot on year one (so £416.66). The cost of living goes up by 2.5% by the end of that year, so the money in the pot is now adjusted to £427.08. Next year, the calculations run again, based on salary, and that money is added to the pot. An inflation calculation is run on the total amount.

Every year, the same calculations are made. The money at the end, at retirement, is what the pension member gets each year.

Enrolments and opt-outs

With teachers' pensions, there are two types of enrolment: contractual and automatic.

Contractual enrolment is how many join Teachers' Pension scheme, normally when taking up a new job or changing roles - basically, anything requiring a new contract that meets or exceeds three months. However, if they opt out, they might still find themselves 'auto enrolled'. The launch and roll-out of automatic enrolment from 2012 saw large numbers of teaching employees being onboarded into a pension scheme.

As is sometimes the case, people will sometimes be employed on a short-term basis but then be put onto a longer contract. When those contracts meet or exceed three months, contractual enrolment will take place from the first period after the date of extension.

With contractual onboarding, there is no earnings threshold, nor does it matter if you are working full- or part-time. Pensions are contingent on age, however. People will be enrolled from 16, and the maximum age is currently 75.

Contractually enrolled teachers have three months to opt out and get their contributions back from their employer.

After the three-month window, there is still a 'vesting period' of two years - the minimum time needed for an employee to fully enjoy the benefits of the retirement plan. During this time, people can still opt out and get a refund, although this will have to be from the scheme itself and not provided by the employer. This money is taxed at 20%, and people also have the option of transferring the balance to another pension scheme.

Teachers are automatically re-enrolled every three years (if they have not opted out in the last 12 months) through the automatic enrolment mechanism. There are some exceptions which need to be taken into account, however, such as employees working their notice.

As a result, there is a lot to keep track of - people will have registered at different times and opted out for different reasons. A good number will need to be re-enrolled once more after three years. Alongside lifting the burden of everyday payroll, Dataplan has decades of experience keeping track of these ever-changing administration requirements and can use its ePayslips platform to make it even simpler to communicate with staff and show them their pension contributions.

Reporting information to the Teachers' Pensions Scheme

The End of Year Certificate (EOYC)

In general terms, the End of Year Certificate (EOYC) is an annual contribution breakdown. A summarised data file is uploaded to the Teachers' Pension Scheme employer portal. A PDF copy of the EOYC is required for use by the independent auditors, which they must submit to TPS. Although not a legal requirement, it should be considered best practice that these are accompanied by a full breakdown of every teacher for every pay period by contribution tier.

Remember: don't forget to keep a PDF copy of your EYOC - properly formatted and signed off by auditors - close to hand. It is a legal requirement and can play an important role in the proper administration of your pensions. It is often used to assist independent auditors when they carry out their annual checks in September.

Monthly Data Collection (MDC)

It is still the case for a great many educational institutions that data for Teachers' Pensions is reported to the scheme via a process called Monthly Data Collection (MDC). This is in the process of being changed over to a new method, Monthly Contribution Reconciliation (MCR), which we will discuss shortly.

Under MDC, the data sent to the Teachers' Pension Scheme is the individual teacher's information, line-by-line and job-by-job, for each pay period. This goes onto a teacher's pension account, so they can access and view their data online - that means they can watch their pension build up on a month-by-month basis.

There are also two additional processes. First, there is an enrolment report, so if you've got any new teachers, you have to send this information to Teachers' Pensions to get them successfully onboarded. In addition, every educational organisation also has to send a contribution breakdown each month. It must set out pensionable pay, all the different contribution tiers, and all the additional pension contribution types that individual teachers pay.

This must then go into a reconciliation, where the calculations are checked against the contributions to the fund after being uploaded to the Teachers' Pension Scheme.

Monthly Contribution Reconciliation (MCR) - the future of Teachers' Pensions

Monthly Contribution Reconciliation (MCR) replaces the MDC processes, rolling all three of them into one. The decision was made to move to MCR from MDC because the Teachers' Pension Scheme had no overall control to decide who paid what or to check whether the Teachers' Pensions information for individual teachers was correct.

The MCR improves the quality of data for teachers and the information they can access about their pensions, and it also gives them the ability to have far better control over the contributions being paid.

Dataplan played a key role in the development of the MCR process.

Dataplan was part of an initial engagement group that began developing MCR in 2019. With the help of Dataplan and some other providers, the Teachers' Pensions MCR development group was able to establish a definitive new process. Dataplan also joined an initial pilot group to help set this new national standard in reporting.

With our help, Teachers' Pensions ironed out many issues and inefficiencies before MCR was rolled out. Because we were at the forefront of this process, we were then able to share this refined way of working very quickly with our clients. It is recognised that after two and a half years since it was first introduced, there are still many process efficiencies and improvements that can still be made.

Originally, the deadline for everybody to be using MCR was September 2021 however, after extending multiple times, it has been decided that there will be no deadline.

The complete standardisation of MCR has, consequently, been left slightly open-ended; Teachers' Pensions has contacted various organisations or employers that haven't moved over yet to ascertain when this would be achievable on an individual basis.

Communicating with your employees

When it comes to pension schemes, it is important to manage communication with your employees. There are some statutory requirements regarding communication, as well as some best practice suggestions.

As a rule of thumb, you should aim to ensure that your employees know:

- when they have been opted into a scheme
- the scheme rules and details of the scheme
- what their contributions will be, as well as the employer contributions
- how to opt out of the scheme
- who to contact for help and advice

In addition, you should communicate to them at certain periods:

- details of any changes to the scheme as soon as they become available
- annual statements
- retirement estimates

What is the Local Government Pension Scheme?

The Local Government Pension Scheme (LGPS) is a public service initiative with rules set by Parliament. Although it is a single, UK-wide pension scheme, it is administered by 86 separate regional funds. Each fund decides how pension contributions are invested.

Whilst the rules are set by Parliament and can only be changed with its approval, each fund has slightly different requirements on how data is transmitted to them. It is also important to note that the Local Government Pension Scheme is based on the principle of contractual enrolment very much in the same way as the Teachers' Pensions Scheme.

Local Government Pension Schemes are managed by 86 regional funds.

Automatic enrolment, again like the Teachers' Pension, was there to bring many staff onboard from 2012 onwards. It is still used every three years to re-enrol anyone who has stepped away from the scheme.

The majority of LGPS Funds use one of two pension administration system providers. Not only do they work as a conduit between the pension provider and the institution's payroll team, they provide a full pension database and administration system. These providers are Civica and Aquila Heywood. One efficiency that can be achieved with the Local Government Pension Scheme is a single return can be sent to the provider that represents a whole Trust. This is very different from the 'one institution, one return' approach you need to take with the Teachers' Pension Scheme.

Even though every regional fund has its nuances, a Local Government Scheme has staple obligations to:

- Opt all eligible employees into the scheme
- Manage opt-outs, opt-ins, and leavers
- Communicate with employees regarding the scheme, including decisions about the LGPS, annual statements, material changes to the scheme, a pension fund annual report, funding strategy statement and communication strategy
- Make data submissions, and process employee and employer contributions by the pension deadlines
- Produce monthly (or annual) returns as applicable
- Manage retirements
- Adhere to statutory obligations, including changes to the scheme

As with the Teachers' Pension Scheme, retirement can be taken at the normal pension age, taken early (due to ill health or other reasons), or taken as part of a phased arrangement. Some people will choose to work at an education employer beyond the normal retirement age. If you are a Dataplan Education client and would like to find out more about any of these scenarios, please get in touch.

Enrolment and opt-outs

The variety of Local Government Pension Scheme funds makes things more difficult as rules can vary - even though the scheme is underpinned by national legislation.

On the surface, however, there are some similarities to the Teachers' Pension Scheme.

Eligible employees need to be contractually enrolled from day one, as long as their contract is for three months or more - and, again, this includes existing temporary employees moving to a longer-term contract. There are some exceptions which you will need to research (particular to the local pension funds), and people can also 'opt in' should they wish to.

There is a three-month cut-off for opting out under the contractual arrangement. If someone wants to leave at this time, they will be treated as if they were never a member. Arrangements must then be made by the employer to quickly return any contributions, either via payroll (if there are less than three months' contributions paid) or the pension Fund (if contributions are made for more than three months but less than two years).

Like the Teachers' Pension, there is also a vesting period of two years. If a staff member decides to leave during this time, but after three months, then they can take a refund from the pension provider. Again, this is for the contributions they have paid, but it will need to be that amount less 20% tax. They might also be able to transfer the money to another pension scheme, dependent on the regional provider.

A pension can also be deferred if someone leaves, with the benefits being updated each year in line with the cost of living.

Dataplan takes the stress out of pension administration by managing not only who is eligible but creating a seamless bridge between the pension holder, the institution they work for, and their local pension provider. Every member of staff will be told if they are eligible but will also be updated if that status changes.

Our experts can seamlessly administrate any opt-outs, as well as keep track of who is eligible to be re-enrolled into the scheme.

How we do this revolves around how you sign up for Dataplan and its associated services. For instance, if you sign up to use our ePayslips technology, everything will be communicated to users through that app, or if you are using physical payslips, we will keep in touch via letter.

Monthly and annual returns

Whether your institution reports on a monthly basis depends on which of the 86 providers the employees' pensions are with. Currently, about half of providers require an annual reporting system, the rest monthly.

Soon, all pension providers are likely to move to monthly reporting, so they are better placed to meet the requirements of the forthcoming national and multi-pension provider Pensions Dashboard Programme. This means that anyone who has until now been writing returns on an annual basis needs to be ready for a transition to monthly - this better, clearer and more detailed way of doing things is the industry direction of travel.

The benefits of a monthly return for the pension holder include better reporting back to the member of staff about how their contributions will affect their retirement. It also means smooth running behind the scenes: information is closely tracked, issues are dealt with as they arise, and any year-end duties have been accounted for in advance.

Dataplan is actively involved in this important transition. Because of the work we do in the sector, we've become known as early adopters, ensuring schools and other educational organisations enjoy the benefits of monthly returns.

Contribution breakdowns

Dataplan provides comprehensive processing of the Local Government Pension Scheme for educational establishments - and this means ensuring everyone who needs the right information has it to hand. As part of payroll services, our teams apply pension contributions and then, from this, draw up a full payroll breakdown, gross to net, of all the different elements of pay and its deductions. These are set out specifically for the Local Government Pension Scheme staff, giving them a clear reconciliation of the money sent against money paid, including an overview of staff and employer contributions.

Such information is not just a “nice to have” but crucial for observing the legal obligations on the part of the employer. Making sure these reports are produced ahead of payments means that there is no money inappropriately held back on the part of the employer and that important deadlines are hit.

Mistakes mean repercussions, and those repercussions will be felt by the educational employer.

Communicating with your employees

Nobody who has a pension should have any doubts about where they stand regarding the scheme or the contributions being made: communication is key.

There are some statutory requirements regarding communication, as well as some best practice suggestions, which an education employer needs to meet.

As a rule of thumb, as for the Teachers’ Pension, you should try to make sure your employees know:

- When they have been opted into a scheme
- The scheme rules and details of the scheme
- What their contributions will be, as well as employer contributions
- How to opt out of the scheme
- Who to contact for help and advice

In addition, you should communicate to staff at certain periods:

- Details of any changes to the scheme as soon as they become available
- Annual statements
- Retirement estimates

It is also important to make sure people know about the Local Government Pension Scheme site. It is not specific to each pension plan - providers will have their own web portals - but it does hold a lot of information from a national perspective. As one of the largest schemes of its type in the UK, it provides a wealth of guidance, including how people can contact their regional provider. It also has tools for individuals that can help them make decisions about their contributions, including a calculator for extra and lost pension payments.

The impacts of the McCloud and Sargeant finding

In December 2018, the Court of Appeal found in the cases of McCloud and Sargent that both the judges' and firefighters' pension schemes were discriminatory to some of their members. This was on the grounds of age discrimination, and it happened when the career average revalued earnings (CARE) scheme was introduced. This affected teachers and firefighters in 2015, and it impacted the Local Government Pension Scheme holders earlier, in 2014.

McCloud and Sargeant is a ruling on age discrimination that had a major effect on educational pensions.

As part of this major change, 'transitional protection' allowed some older workers to stay in legacy 'final salary' pension schemes instead of moving to the CARE system, the latter of which had higher pension ages and often a lower return for members.

Subsequently, transitional protection was ruled as age discrimination against younger employees.

The UK Government appealed, unsuccessfully, to the Supreme Court. On 15 July 2019, the government announced that it accepted the judgment applied to all main public service pension schemes and consulted on its proposals to address the discrimination.

Following this, the government set out a remedy period which runs from 2015 to 2022. This will allow people eventually claiming their pension to make a side-by-side comparison of the two scheme types (final salary vs CARE) and see which works best for them, based on accrual up to and during this period. If they see greater benefit from money accrued between 2015 and 2022 using the final salary method, they can claim the money made during that time on that basis, as opposed to any money from the CARE model. However, from April 2022 everyone was moved from the legacy final pension scheme to the CARE model.

Which employees are affected by this?

The McCloud and Sargeant ruling applies to the Firefighters' Pension Schemes, Local Government Pension Scheme, Teachers' Pension Scheme, NHS Pension Scheme and all other Public Sector pension schemes' members who were in post on 31 March 2012 and still in post on 1 April 2014 (as applies to the Local Government Pension Scheme) or 1 April 2015 (as applies to the Teachers' Pension Scheme).

Independent and private schools

Because they are at arm's length from governmental oversight, independent and private schools have been given a choice to either remain with the Teachers' Pension and the Local Government Pension Scheme (LGPS) or move to other pension scheme providers that will be of greater benefit to them financially.

Employer contributions have risen in recent years, and although they can be required to go down, this is rarely the case. Consequently, rising overheads have seen some institutions try to devise ways to grapple with the increase in costs.

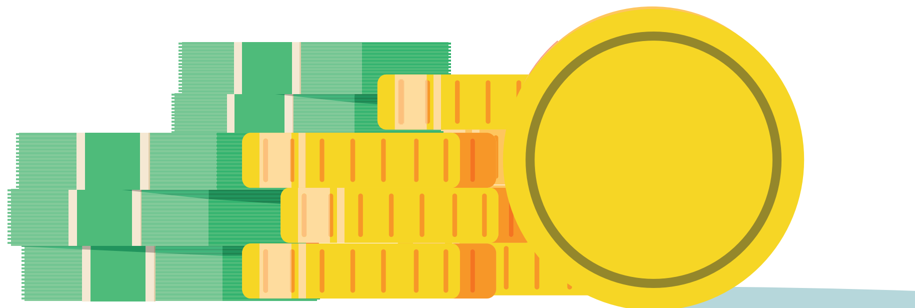
The rising cost of the Teachers' Pension to employers has led many private schools to seek alternative arrangements.

Independent schools can opt for a different workplace pension from the Teachers Pension or the LGPS. Auto enrolment obligations still apply, requiring a 5% employee contribution and 4% from the employer.

This means that we have seen a number of employers choose to leave the scheme in search of alternative arrangements.

As many will expect, there is also a wide variety of arrangements for support staff. They are treated as a workplace employee, and so a vast array of pension choices are close to hand for the organisation.

Dataplan is an expert in compliance, integrating your systems to new pension providers and handling varied pension offerings in workplaces - making sure that what is offered is both legally sound and swiftly implemented.



A more connected future

Dataplan is an organisation at the forefront of making sure pension data is sent quickly, securely and with no margin for error.

It is working with the Payroll Software and Service Engagement Group to make sure that the latest technology is used to transfer pension information seamlessly from our teams to scheme providers and back. Currently, we use 'bot' programs to quickly collate and automatically relay data to pension providers and retrieve information to add to our databases. These bots work 24-7 to make sure every payroll and pension data transfer is processed accurately and in good time.

In the future, our systems will work even more hand-in-hand with the various pension providers.

We are collaborating with the industry to develop API technology so that our computers can instantaneously 'talk' to pension systems, making our close working with these organisations even closer.

About the Authors

George Serls is Dataplan Education's Head of Innovation and Change Management and has been a part of the team since 2015. He works across the pension schemes of all Dataplan's clients, in both the corporate and public sectors, with a mission to simplify, standardise and automate as many pension processes as possible.

Working with Dataplan's in-house IT development team, George helps to implement solutions that remove duplication and inefficiency.

George was also heavily involved in the MCR pilot process and was instrumental in achieving the extension to the original deadline for its roll-out. He works closely with the Local Government Association and Department for Education, as well as Teachers' Pensions, to ensure that Dataplan takes a leading role in the implementation of new processes and technology.

Additionally, George has been crucial in the McCloud and Sargent age discrimination case remedies for Dataplan clients.

George Serls

Head of Innovation & Change Management

Phyliss Downs is the Head of Pensions, and she has been part of the team since 2014 - having played a leading role in educational payroll.

Prior to that, she was the Personnel and Payroll Manager for the Grimsby Institute, a large HE and FE College.

Phyliss is at the forefront of a leading-edge managed service, providing experts in pensions and payroll innovation that work side-by-side with all types of organisations.

It is Phyliss's remit to oversee the pension administration for over 1000 schools and academies across the UK. She is a leading expert in the complexities of not only pensions but also Teacher's Pensions and LGPS.

Phyliss enjoys the variety of her role and working with her team, the payroll processors, and clients.

Phyliss Downs

Head of Pensions

For tailored advice to your specific needs, please get in touch:

Call: 03331 128000

Visit: dataplaneducation.co.uk

Dataplan Education by IRIS
1 Prince Albert Gardens
Grimsby
DN31 3AG