**PRESTON RULING: RE-INSTATEMENT OF SERVICE**

**COLLECTION OF OUTSTANDING DEBTS OF MEMBER CONTRIBUTIONS REQUIRED TO REINSTATE SERVICE**

Teachers' Pension Scheme

GAD SPREADSHEET MODEL TO ASSIST IN CALCULATING REPAYMENT AMOUNTS

**A guide to use of the spreadsheet model**

CONTENTS

## A. Introduction

This document has been prepared on behalf of the Department for Education and Skills (DfES) to provide guidance for employers and administrators wishing to use the GAD spreadsheet model to assist in calculating repayment amounts where, following a re-instatement of excluded service in accordance with the House of Lords Preston ruling, there is an outstanding debt for member contributions to be met.

The model is entirely consistent with that prepared by GAD on behalf of HM Treasury for use in public sector schemes generally (issued on 9 May 2003). In fact, this subsequent model may be regarded as an extension of the original model which calculates (in standard cases) the deductions from pay and benefits which are required to collect the contribution debt, based on the detailed (and common) policies on collection for the TPS which have been agreed with the relevant Trades Unions.

This document is intended to act as a guide to the calculation model and therefore it is anticipated that the reader will have access to the spreadsheet model when they are reading this document. The latest version of the calculation spreadsheet model (which will be updated on a monthly basis to incorporate newly available financial parameters) can be found on the TPS website at www.teacherspensions.co.uk and by clicking on the Bulletin Board and then Part-time Workers ('Preston').

In addition to providing guidance on use of the model, the document also sets out various procedures to be followed by employers and/or scheme administrators. These aspects have been agreed by the Teachers' Pension Scheme and the relevant Trade Unions, in accordance with the Treasury guidelines.

## B. Capabilities

The model is constructed in four sections, with the following capabilities:

<u>Section 1</u>

(i)     Based upon status (active, deferred or pensioner) as at the date of first calculation ( initial quotation date), the Section 1 program calculates the immediate cash value of the debt for member contributions at that date, assuming the individual opts to re-instate the maximum length of service possible. This is intended – together with some additional details - to be included in the documentation initially issued to members and former members to notify them of their options. For those in active status, the debt is calculated assuming that full tax relief at the individual's current marginal tax rate will be available – in some cases, those affected may need to claim this relief through their end-of-year returns. For deferred and pensioner members, the debt is calculated assuming no relief will be available (and none should thus be claimed).

(ii)    The Section 1 program also calculates the cash value of the debt if the individual opts to re-instate less than the maximum possible service (but this must be a whole number of years of part-time service).

(iii)   Active members will have the option of spreading repayments by means of monthly fixed cash deductions from salary. The Section 1 program determines the period over which the debt may be repaid, and the amount of these monthly deductions, assuming full tax relief will be available. Subject to rounding and a six month minimum, the period calculated is equal in length to that for which the individual was excluded from membership, but truncated just before the 60th birthday if it would otherwise extend beyond that date. The Section 1 program also calculates the cash amount of the debt, the repayment period and the required monthly deductions from pay if the individual opts to re-instate less than the maximum possible service.

This part of the program, subject to some constraints, allows the user to enter the start-date for deductions from pay and determines the corresponding end-date.

(iv)    For those in deferred status at the first calculation date, the Section 1 program calculates the projected percentage deduction from the retirement lump sum (calculated including re-instated service) if the individual opts to pay the debt entirely by this means. It also allows this to be re-calculated if the individual opts to re-instate less than the maximum possible service and/or meet part of the debt by means of an immediate cash payment.

(v)     For those in pensioner status at the first calculation date, the Section 1 program compares the immediate cash value of the debt with the additional retirement lump sum (plus interest for late payment) due as a result of the re-instatement. If the cash value of the debt exceeds the retirement lump sum any outstanding debt should be deducted from subsequent pension instalments (although such deductions should not, without the permission of the pensioner, exceed the amount of the additional pension arising as a result of the re-instatement). The program also allows for the individual to opt to re-instate less than the maximum possible service.

<u>Section 2</u>

The Section 2 program is relevant only to those in active status at the initial quotation date. It provides a very broad-brush check of whether sufficient tax-relief may be available to cover the envisaged payment(s) to the pension scheme, whether by monthly deduction or by a one-off contribution, based on current salary and member contribution data. The "other pension contributions" in field E62 should include any additional TPS contributions, any AVCs and any Free-standing AVCs. For various reasons (for example because taxable pay in the year cannot be known in advance), the absence of an alert in the Section 3 results should not be regarded as a definitive indication that sufficient tax relief WILL be

available. Conversely, an alert may be shown in cases where subsequent changes lead to additional tax relief becoming available.

Section 3

The Section 3 program is relevant only for those who were in active status at the initial quotation date, and who opted to spread their debt by monthly deductions from salary. It is to be used where such a member subsequently leaves active service before the debt is repaid. It calculates the outstanding amount of the debt, and the projected percentage of the retirement lump sum that this represents.

Section 4

The Section 4 program is intended to allow deferred pensioners with an outstanding debt (whether they were in active or deferred status at the initial quotation date) to obtain updated statements of the amount of their outstanding debt.

Exclusion

The model does not calculate the amount of service to be re-instated (either on a full-time-equivalent or some other basis), nor the amounts of benefits either before or after re-instatement. In fact, it requires information derived from such calculations as an input in many cases. The model is intended solely to assist in deterring the amounts to be paid to meet outstanding debts for member contributions arising as a result of re-instatement.

## C. Procedures

<u>Initial notifications</u>

It is expected that following general release of the spreadsheet model early in 2004, its principal use in the months immediately following will be to generate the data to be included in the initial round of notifications to successful claimants.

This will require completion of the first part of Section 1 which will generate the following information to be included in notification letters:

(i)      for active members, the total cash amount of the debt (assuming tax relief is available to cover the full sum), and the monthly salary deduction amounts and repayment period for those opting to spread repayments instead of meeting it by means of a one-off payment;

(ii)      for deferred, the total cash amount of the debt and the projected percentage deduction from the retirement lump sum if the debt is entirely met by such a deduction;

(iii)      for pensioners, the total cash amount of the debt.

(iv)      the equivalent figures if only one calendar year of excluded service is re-instated.

AFTER COMPLETING THE FIRST PART OF SECTION 1 OF THE MODEL AND USING THE CALCULATION RESULTS IN A NOTIFICATION LETTER, THE PAGE SHOULD BE PRINTED OFF AND A COPY PLACED ON THE INDIVIDUAL'S FILE.

<u>Options following initial notification</u>

The initial notification forms will include details of the various options available. For all three categories of beneficiary, the first of these options will be the possibility of re-instating a smaller amount of service than the potential maximum. For actives, the other important choice is between a one-off payment or spreading repayment over a longer period by means of regular monthly deductions from pay. For deferred, the other important choice will be whether or not to reduce (or eliminate) the outstanding debt by means of an immediate one-off payment, so reducing (or eliminating) the deduction from the eventual retirement lump sum.

On return of the option form attached to the initial notification, the final part of Section 1 can be completed, so establishing definitively the debt for the chosen amount of re-instated service, the chosen method(s) of payment and the amounts of payments/deductions and deduction periods required. Again, in the case of active members, the final part of Section 1 assumes tax relief is available on the full sum calculated.

<u>Section 2: tax relief</u>

As mentioned in Section B of this document, Section 2 of the model is intended to act as a very broad brush check of whether sufficient tax-relief may be available to cover the envisaged payment(s) to the pension scheme. It is not possible to say in advance whether full tax relief will be available to a member as this will depend on actual contributions and actual earnings in any tax year. The required contributions will be a fixed monthly amount or a fixed one-off payment whereas the individual's earnings could change significantly over time.

A member is more likely to receive the tax relief (in part of in full), if they opt for deductions from payroll rather than immediate payment of the debt. In addition, if an active member opts for immediate payment of all the debt by making a lump sum payment by cheque it will be the member's responsibility to claim any tax relief due via their tax return. If they opt for deduction from payroll the member will obtain the maximum available tax relief automatically, up to total contributions of 15% of payroll.

By completing Section 2 the user will have a broad indication of whether or not tax relief will be available on all contributions. Further guidance in relation to cases where the limit for relief is exceeded is included in the examples below. The member should be made aware that, even if the contributions are expected to obtain full tax relief at the date of the initial calculations, circumstances may change and it is possible that they may not be able to reclaim tax relief on all future contributions.

Maintenance of model spreadsheet

The program calculations depend upon a range of financial parameters, which vary on a monthly (or more frequent) basis. It is intended that the numerical inputs to the model should be updated once a month. A new website copy of the model will be made available immediately following such an update. **Users should complete final calculations at any stage (and then print results) using a copy of the model that has been downloaded from the website on the day of use.**

Some of the input parameters on which the model depends are available only with a time lag of two (or sometimes three) months. To avoid unacceptable delays in the re-instatement process, the model uses short-term extrapolation of historic data series to allow calculations to be undertaken at a current date. Parts of the model allow calculations to be undertaken in advance of an anticipated event (or following a completed event), but lead and lag times are restricted to a maximum of just a few months.

It is possible that the model may seem to behave unpredictably where there are differences in the underlying default settings within MS Excel. For example, Tools\Options\Edit needs to have Automatic Percent Entry enabled. Any problem of this nature should be capable of solution at a local level.

## D. Spreadsheet model protocol

Data entry and colour-coding

The model is presented in a sheet in which all cells are locked except those potentially required for data input. **Warning:** Neither GAD nor the Department for Education and Skills take any responsibility for any results produced from a version of the spreadsheet which has had the locking removed or has been altered or used in any manner inconsistent with these instructions.

The required data input varies according to the category of beneficiary and other circumstances or options: cells appearing with a yellow background (in Columns E, F and G) require the user to enter a text, date or numerical value. In many, but not all cases, the data entry can be chosen by means of drop-down boxes, and the options available in these boxes are often conditional upon the values already entered for other variables. In general, the model will be at its optimum if values are entered starting from the top of the sheet working downwards, and completing each row from left to right before moving to the next. If in doubt, data-entry cells should be cleared entirely by clicking on the "new calculation" button, and then re-commencing data entry.

Prompts for data entry are shown in columns B, C and D against a green background, and in the ERROR MESSAGE Column (H) in red text – it should be borne in mind that many of these prompts are also conditional upon what has already been entered.

Calculation results and related items of information are shown against a mauve background.

Use of Sections

Parts A and B of Section 1 of the model must be completed in all cases. In Part A, most of the data items required are independent of the category of beneficiary, whilst in Part B the entries requested will be conditional on category. It should be noted that it will be necessary in many cases to have available information on the accrued benefits both with and without full re-instatement of service. Part C of Section 1 sets out the calculation results to be included in the initial notification to potential beneficiaries. A PRINTOUT MUST BE PLACED ON FILE AFTER ANY INITIAL NOTIFICATION HAS BEEN ISSUED BASED ON RESULTS FROM PART C OF SECTION 1.

Part D of Section 1 allows amendments following receipt of returned forms from the initial notification exercise setting out beneficiaries' individual options. A PRINTOUT MUST BE PLACED ON FILE AFTER ANY FINAL AGREEMENT ON REPAYMENTS HAS BEEN REACHED BASED ON RESULTS FROM PART D OF SECTION 1.

It is important to note that Section 1 also requires the user to indicate (in Cell E12) whether the calculation is for the purpose of an "initial quotation" or for a "follow-up query". The "initial quotation" option is intended to be used for the purpose of preparing the initial notification (Part C) and (in Part D) for any amendments required as result of options taken by beneficiaries in response to that notification. The "follow-up query" option is to be used only for queries arising subsequent to the final decision to re-instate service, more specifically

- (i) where an active member paying a debt by instalments leaves service before repaying in full (Section 3) or
- (ii) where a deferred member (whether in active or deferred status at the initial quotation date) requires a statement of the outstanding debt at any point before benefits come into payment (Section 4).

Section 3 procedure

If Section 3 is to be used, Section 1 must first be completed using the data entries as at the initial quotation date extracted from the paper file, utilising the "follow-up" query option and entering the date of the initial quotation. A printout must then be placed on file.

Section 4 procedure: deferred at initial quotation date

If Section 4 is to be used in a case in which status was "deferred" at the initial quotation date, Section 1 must first be completed using the data entries as at the initial quotation date extracted from the paper file, utilising the "follow-up" query option and entering the date of the initial quotation. A printout must then be placed on file.

Section 4 procedure: actives at the initial quotation date

If Section 4 is to be used in a case in which status was "active" at the initial quotation date, Sections 1 and 3 must first be completed using the data entries as at the initial quotation dates extracted from the paper file, utilising the "follow-up" query option and entering the dates of the initial quotations. A printout must then be placed on file.

## E1. Data entry and outputs, Section 1

<u>Section 1, Part A, data needed in all cases</u>

CLICK THE "*NEW CALCULATION*" BUTTON BEFORE STARTING OR AT ANY SUBSEQUENT POINT IN ORDER TO RE-COMMENCE DATA ENTRY AND CALCULATIONS

| Spreadsheet cell address | Data to be entered | Comments |
|---|---|---|
| E10 | Name of individual | No restrictions on length except width of column |
| E11 | Date of birth | In dd/mm/yyyy format – the program will pick up some entry errors, but the error-checking is not exhaustive |
| E12 | Option on mode of model use | The "initial quotation" option should be selected unless re-instatement has already taken place and there is a "follow-up query" requiring the use of Section 3 or Section 4. When this is set to "initial quotation" the date shown in cell E16 and F16 defaults to the date of use (i.e. "today"). |
| E13 and F13 | Date of initial quotation | Required only when E12 set to "follow-up query" – in this setting the spreadsheet relies on the manually entered initial quotation date. When E12 set to "follow-up query" and E13 entered correctly, the rest of Section 1 must be completed as it was for the initial quotation, entering the data items from the file printout of the original. |
| E17 | Status at original calculation date (active, deferred or pensioner) | Enter the original status even if this changed after the re-instatement was implemented (although where a change takes place before the final re-instatement decision takes place, this entry should be changed and a Section 1 recalculation should be undertaken). |
| E20 to G20 | Year, month and day of the start of period during which the member was wrongly excluded from membership | Enter values from left to right. The drop-down boxes restrict the choice to a date between 1 April 1976 and 30 April 1995 (although in reality the earliest possible date is 8 April 1976 and the latest possible date is 1 May 1995 – for which 30 April 1995 should be used) |
| E21 to G21 | Year, month and day of the end of period during which the member was wrongly excluded from membership | Enter values from left to right. The drop-down boxes restrict the choice to a date between 1 April 1976 and 30 April 1995, and a combination of programmed constraints and error messages is used to ensure that this date does not precede the start date in row 20. |
| E24 | The type of salary data to be input into the calculation of the debt. | The options here depend on the status entered in E17. For actives, the only choice is the rate of pensionable salary at some point in time to be specified in cells E26 and F26 – this can be a current date, although salary at the end of the re-instatement period should ideally be used. For deferred and pensioners, there is the additional option of using the final pensionable pay that was used in deferred or pension benefit calculation. |

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| Spreadsheet cell address | Data to be entered | Comments |
|---|---|---|
| E26 to F26 | Year and month to which salary data relate | This may be a current date, the end of the re-instatement period or some other date. Where the option has been taken to use the final pensionable pay used in the benefit calculation, the date of leaving should be entered. |
| E27 | The amount of the pensionable earnings to be taken into the calculation of the debt. | Enter the annual full-time equivalent rate of pensionable salary as at the date specified in cells E26 to F26. In the case of a deferred or pensioner member where the option has been taken to use the final pensionable pay used in an earlier benefit calculation, enter the full time equivalent pensionable pay on which the benefits were calculated. |
| E28 | The assumed average percentage of full-time conditioned hours worked during the period of excluded membership. | Enter a percentage less than 100%. |

In addition, for background information purposes only, cell E22 shows the (rounded down) calendar length in months of the maximum potential re-instatement period – this is NOT service converted to a full-time equivalent basis. This is used in the model both to calculate the debt for member contributions and to determine the period over which an active member's debt may be met by monthly deductions from pay (where the maximum possible amount of service is re-instated). It will also be of assistance when subsequently entering data into cell E50 for those wishing to re-instate less than the maximum. IT IS IMPORTANT TO NOTE THAT THIS IS NOT EQUAL TO THE ACTUAL SERVICE WHICH WILL BE RE-INSTATED, WHICH WILL NOT BE ROUNDED AND WILL BE CONVERTED TO FULL-TIME EQUIVALENT SERVICE.

Section 1, Part B, data specific to membership category

| Spreadsheet cell address | Data to be entered | Comments |
|---|---|---|
| E32 | The member's top marginal tax rate as at the calculation date | FOR ACTIVES ONLY |
| E34 | The amount of the preserved retirement lump sum, with pension increases to the calculation date, before any re-instatement | FOR DEFERREDS ONLY |
| E35 (in deferred status) | The amount of the preserved retirement lump sum, with pension increases to the calculation date, assuming the individual opts to re-instate the maximum possible amount of excluded service | NOTE: THE USE OF THIS CELL DEPENDS ON WHETHER STATUS IS DEFERRED OR PENSIONER |
| E35 (in pensioner status) | The amount of additional retirement lump sum that will be due (net of any actuarial reduction and inclusive of interest for late payment in accordance with the regulations), assuming the individual opts to re-instate the maximum possible amount of excluded service | NOTE: THE USE OF THIS CELL DEPENDS ON WHETHER STATUS IS DEFERRED OR PENSIONER |

Section 1, Part C, Outputs needed for initial notifications

| Spreadsheet cell address | Input and Output Information | Comments |
|---|---|---|
| E40 | The cash amount of the debt for member contributions at the calculation date, assuming all excluded service is re-instated | In the case of active members, this is calculated assuming full tax relief will be available when repaying the debt to the scheme. In the case of pensioners and deferred, it is calculated assuming no tax relief will be available. |
| E41(deferred) | The projected percentage that the debt will represent of the deferred retirement lump sum when it becomes due, if all excluded service is re-instated and the debt is met entirely by deduction from retirement benefits | Following a re-instatement, this percentage should stay constant over time. Note this can exceed 100%, in which case some of the debt will need to be collected by deduction from the additional pension payments when they become due. |
| E41 (actives) | The monthly deductions from salary required to effect full re-instatement if the member opts to spread the debt. | Assumes full tax-relief available, and applies a minimum repayment period of six months. Note: to convert to a weekly amount for weekly paid staff, multiply the monthly figure in field E41 by 12 and then divide by 52. |
| F41 (actives only) | The number of monthly deductions from pay required if the member opts to spread the debt. | This is calculated to coincide with the rounded down re-instatement period shown at cell E22, but truncated where this period would extend beyond age 60. Note: to convert to weeks for weekly paid staff, multiply the number of months in field F41 by 52, divide by 12 and round down to the nearest week when necessary |
| E44 | The cash amount of the debt for member contributions at the calculation date, assuming one year of excluded service is re-instated | In the case of active members, this is calculated assuming full tax relief will be available when repaying the debt to the scheme. In the case of pensioners and deferred, it is calculated assuming no tax relief will be available. |
| E45(deferred) | The projected percentage that the debt will represent of the deferred retirement lump sum when it becomes due, if one year of excluded service is re-instated and the debt is met entirely by deduction from retirement benefits | Following a re-instatement, this percentage should stay constant over time. Note this can exceed 100%, in which case some of the debt will need to be collected by deduction from the additional pension payments when they become due. |

| Spreadsheet cell address | Output information | Comments |
|---|---|---|
| E45 (actives) | The monthly deductions from salary required to re-instate one year, if the member opts to spread the debt. | Assumes full tax-relief available, and applies a minimum repayment period of six months. Note: to convert to a weekly amount for weekly paid staff, multiply the monthly figure in field E46 by 12 and then divide by 52. |
| F45 (actives only) | The number of monthly deductions from pay required if the member opts to spread the debt. | This is calculated to coincide with the rounded down re-instatement period shown at cell E22, but truncated where this period would extend beyond age 60. Note: to convert to weeks for weekly paid staff, multiply the number of months in field F46 by 52, divide by 12 and then round down to the nearest week if necessary |

USE THE RELEVANT PRINT BUTTON TO PRINT A COPY FOR THE FILE AFTER COMPLETING PARTS A AND B AND READING OFF THE PART C RESULTS FOR INCLUSION IN THE INITIAL NOTIFICATION LETTER.

Section 1, Part D, inputs and outputs at final stage of initial calculation

Part D is intended to be completed once individuals have returned a completed option form. It allows calculations to be modified to reflect options taken such as re-instating less than the maximum possible amount of service or (for deferred) paying part of the debt immediately. THIS PART OF THE MODEL WILL NORMALLY FIRST BE USED WHILST STILL SET IN THE "INITIAL QUOTATION" MODE.

| Spreadsheet cell address | Input and Output Information | Comments |
|---|---|---|
| E49 | Input: Yes or No | Indicator of whether individual wishes to re-instate the maximum possible amount of excluded service or some lower amount. If a lower amount, must be a whole number of years of part-time service. For simplicity, it is assumed that the average percentage hours worked and member contribution rate are equal to those applicable to the whole period. |
| E50 | Input: Whole number of years of part-time service to be purchased if E49 set to "No" | Error messages appear if this exceeds the maximum available or is not a whole number. |
| E51 (deferred) | Output: the preserved retirement lump sum (including pension increases to date) including the lower amount of service to be re-instated. | This is an estimate for reference purposes calculated by proportions using the results and entries at E22, E34, E35 and E49 |
| E52 (deferred and pensioners only) | Output: the reduced cash amount of the debt for outstanding contributions if the lower amount of service is re-instated | |
| E53 (deferred) | Input: amount of any cash payment to be made initially | Enter a zero if the person is not making an initial cash payment |
| E53 (pensioners) | Input: the additional retirement lump sum (net of any actuarial reduction but including interest for late payment) deriving from the lower amount of service to be re-instated. | |
| E54 (deferred) | Output: The outstanding debt due | The amount of the outstanding debt to be projected is obtained by subtracting the value of E53 from that of E52. |
| E54 (pensioners) | Output: The outstanding amount of debt (if any) after deducting it from the additional retirement lump sum (including interest for late payment) deriving from the lower amount of service to be re-instated. | This amount will be deducted in instalments from subsequent payments of additional pension becoming due on re-instatement (including any arrears due with interest). |

| Spreadsheet cell address | Input and Output Information | Comments |
|---|---|---|
| E55 (deferred) | Output: The projected percentage that the debt will represent of the deferred retirement lump sum when it becomes due, if the lower amount of service is re-instated and the outstanding debt after the cash payment is met by deduction from retirement benefits. | |
| F50 and G50 (actives only) | Output: the reduced cash amount of the debt for outstanding contributions if a lower amount of service is re-instated | |
| F51 and G51 (actives only) | Output: the reduced monthly deductions from pay required if the member opts to re-instate the lower amount of service and spread repayments | Note: to convert the number of months to a number of weeks for weekly paid staff, multiply the number of months in field F51 by 52, divide by 12 and then round down to the nearest week where necessary. To convert the monthly amount to a weekly amount for weekly paid staff, multiply the monthly figure by 12 and then divide by 52. |
| F53 (actives only) | Input: the start month for the deductions from pay | Assumed to be within six months from date of Part A calculation |
| F54 (actives only) | Output: the year in which the start month in F53 falls | |
| G53 and G54 | Output: the final month and year (respectively) of the monthly deductions from salary | For weekly paid staff, the repayment period might end before the end of the month shown in G53 |

USE THE RELEVANT PRINT BUTTON TO PRINT A COPY FOR THE FILE AFTER COMPLETING PARTS A TO D IN ACCORDANCE WITH THE BENEFICIARY'S DESIRED OPTIONS.

## E2. Data entry and outputs, Section 2 (for active members only)

| Spreadsheet cell address | Input and Output Information | Comments |
|---|---|---|
| F60 | Input: Gross monthly pensionable salary | Actual, NOT full-time equivalent |
| E61 | Member's current normal contribution rate to the scheme | 6% in nearly all cases |
| E62 | Input: rate at which any additional voluntary contributions are being made by the member | E.g. for added years or to AVC schemes, free-standing or otherwise, all combined |
| E64 | Output: balance of 15% IR limit available to meet debt for contributions | Assumes this balance is applicable for the whole of tax-year in which re-instatement takes place (and subsequently to the end of the repayment period for those opting to spread repayment). Note this takes no account of any extra relief which may well be initially available because the calculation date does not coincide with the start of a tax year. |
| F64 | Output: the monthly pay equivalent to the percentage headroom in E64 | |
| F65 | Output: message that sufficient relief is available or not as the case may be. | This appears if there is scope for full relief whether payment is immediate or spread (based on the debt in F50 to G51). In many cases, there will not be scope for a full cash repayment, and an error message indicates when this is the case. A further error message appears where there is insufficient scope to pay by either means. Such cases may need special treatment on an individual basis. See Section 2 Examples for further guidance on cases where insufficient relief is available |

USE THE RELEVANT PRINT BUTTON TO PRINT A COPY FOR THE FILE AFTER COMPLETING A SECTION 2 CALCULATION.

## E3. Data entry and outputs, Section 3 (for active members only)

Section 3 is for use only where an active member has begun meeting a debt by means of monthly deductions from pay, but then leaves service before meeting the debt in full. It calculates the outstanding amount of the debt. Where immediate benefits are payable on exit, the outstanding debt can be deducted from these benefits. For cases where there is a preserved award, Section 3 also calculates the projected percentage that the outstanding debt will represent of the deferred retirement lump sum when it becomes due (assuming no one-off payment is made at the point of exit).

It is intended that actives leaving service with a preserved award before repaying their debts in full should have an opportunity to repay some or all of the outstanding debt at the point of exit, with the balance (if any) eventually deducted from retirement benefits. At this point, the option of paying off part of the outstanding debt has not yet been incorporated into the model, and an updated version (together with updated documentation) will be issued to allow for this option at a later stage.

IMPORTANT: before using Section 3, first:

(i) Complete Section 1 entering the original entries as read off from the paper file copy of the original calculation.
(ii) In particular, in cell E17 of Section 1, enter the status AS IT WAS AT THE ORIGINAL CALCULATION DATE, i.e. ACTIVE.
(iii) Set cell E12 in Section 1 to "Follow-up query" and enter the year and month of the initial quotation (as read from cells E16 and F16 of that calculation) into cells E13 and F13 respectively.

Section 3 inputs and outputs

| Spreadsheet cell address | Input and Output Information | Comments |
|---|---|---|
| E73 and F73 | Input: month and year of member's final deduction from pay | This is subject to a number of constraints intended to ensure a meaningful "order of events". It is intended that this calculation should be undertaken no more than about three months in advance of (and no more than about three months after) the exit takes place. For simplicity, exits are assumed to occur on the last day of the calendar month in which the last day of service falls for both weekly and monthly paid staff |
| E74 | Input: the amount of the leaving member's preserved retirement lump sum, if a preserved award is made. | Note that this includes the lump sum equivalent of the whole of the amount of service that the member opted to re-instate (even though not yet fully "paid for"). |
| E77 | Output: the cash amount of the outstanding debt at the point of exit | Note that this is now calculated assuming NO tax relief will be available to meet the outstanding debt. Where immediate benefits are being awarded, this is the amount to deduct from those benefits. |
| E78 | Output: The projected percentage that the outstanding amount of debt will represent of the deferred retirement lump sum at the eligible retirement date | Note: for now this assumes that part of the outstanding debt is not being cleared by a lump sum payment made at the point of exit. |

USE THE RELEVANT PRINT BUTTON TO PRINT A COPY FOR THE FILE AFTER COMPLETING A SECTION 3 CALCULATION.

## E4. Data entry and outputs, Section 4

Section 4 is for use only where a deferred pensioner (whether in deferred or active status at the original calculation date) requests a statement of the outstanding debt after leaving service but before benefits come into payment.

IMPORTANT: before using Section 4, first:

(i)     Complete Section 1 entering the original entries as read off from the paper file copy of the initial quotation.

(ii)    In particular, in cell E17 of Section 1, enter the status AS IT WAS AT THE INTITIAL QUOTATION DATE, i.e. ACTIVE or DEFERRED.

(iii)   Set cell E12 in Section 1 to "Follow-up query" and enter the year and month of the initial quotation (as read from cells E16 and F16 of that calculation) into cells E13 and F13 respectively.

(iv)    If the original status was ACTIVE, also complete Section 3 as it was printed when the member subsequently left active service.

Section 4 inputs and outputs

| Spreadsheet cell address | Input and Output Information | Comments |
|---|---|---|
| E84 | Input: status at initial quotation date | Choose ACTIVE or DEFERRED. Error messages will appear if there are inconsistencies with Sections 1 to 3. |
| E85 and F85 | Input: date for quotation of outstanding amount of debt. | This is subject to a number of constraints intended to ensure a meaningful "order of events", and that the facility is used in reasonably close proximity in time to the effective date of each quotation. |
| E90 | Output: Cash amount of debt as at previous exit (in cases which were active at the original calculation date) or at the initial quotation date otherwise. | |
| E92 | Output: Updated amount of debt as at date entered in E85 and F85. | |

USE THE RELEVANT PRINT BUTTON TO PRINT A COPY FOR THE FILE AFTER COMPLETING A SECTION 4 CALCULATION.

**EXAMPLES**

**SECTION 1 OF MODEL - ACTIVES**

**Example 1 - Active member**

A Active is an active TPS member at a current date (March 2004 at the time of writing). She wishes to receive an initial quotation of the amount of outstanding contributions due if she re-instates previously excluded service. Her excluded period started on 15 April 1977 and ended on 10 August 1988, and she had a full-time equivalent annual salary of £10,000 as at the latter date (i.e. as at the end of that period). During the excluded period, she worked an average 20% of full time conditioned hours. Her member contribution rate would have been 6% throughout the excluded period, her top marginal tax rate is **currently** 22% and her date of birth is 19 July 1946.

For the initial quotation, the data entry cells should be cleared using the New Calculation Button on the spreadsheet and the yellow cells in Parts A and B of Section 1 should be completed. The completed Parts A and B for A Active are shown in Table 1.

*Table 1: Data input required for initial quotation for A Active*

| Reinstatement of Part Time Service Following the Preston Ruling | | | |
|---|---|---|---|
| **Teachers Pension Scheme** | | | |
| **Model for repayments of outstanding member contributions and related calculations** | | | |
| **Section 1: Initial calculation of repayment amounts** | | | |
| | | | |
| **Part A: Data Needed for Every Case** | | | |
| Name | A Active | | |
| Date of Birth (dd/mm/yyyy) | 19/07/1946 | | |
| Initial quotation calculation or follow-up query subsequent to re-instatement decision? | Initial Quotation | | |
| | | | |
| Base calculation date for first quotation | 2004 | March | |
| Status at the base Calculation Date (i.e. active, deferred or pensioner) | Active | | |
| | | | |
| Start of reinstatement period (year/month/day) | 1977 | April | 15 |
| End of reinstatement period (year/month/day) | 1988 | August | 10 |
| Calendar reinstatement period rounded down to nearest whole month | 135 | | |
| (Note this is NOT equal to the FTE service for reinstatement) | | | |
| | | | |
| Type of Salary data | Pensionable Salary (ideally at end of reinstatement period) | | |
| | | | |
| Enter applicable month & year for salary data | 1988 | August | |
| Annual full time equivalent rate of pensionable salary at date above (FPS where applicable) | £10,000 | | |
| Assumed average percentage of conditioned hours worked during re-instatement period | 20% | | |
| Member's average contribution rate into the scheme during reinstatement period (normally 6%) | 6.0% | | |
| | | | |
| **Part B: Data Needed for Active Member Calculation Only** | | | |
| Member's marginal tax rate at calculation date | 22% | | |

Once the data have been entered and checked, the information required for the initial quotation can be obtained from Part C of Section 1.

*Table 2: A Active - Results for Initial Quotation*

| Part C: Calculation Result | | | |
|---|---|---|---|
| Cost of full reinstatement | | | |
| Total amount due (assuming tax relief IS available) OR | | £2,696 | |
| Regular monthly deductions from pay (assuming tax relief IS available) of | | £133.49 | for 21 months |

If A Active wishes to reinstate the full excluded period, the immediate cash amount of the debt is £2,696. Alternatively, she could choose to pay £133.49 monthly for 21 months. In many cases, the number of monthly deductions will equate to the full reinstatement period (rounded down), but in A Active's case, Table 2 shows that there would be 21 monthly deductions, a shorter period than the excluded 135 months shown in Table 1. The repayment period has been truncated so payments finish before age 60 (allowing a lead time of several months from the current date during which the re-instatement can be implemented).

*Table 3: A Active – Cost of Reinstating One Year*

| Cost of reinstating one year | | | |
|---|---|---|---|
| Total amount due (assuming tax relief IS available) OR | | £240 | |
| Regular monthly deductions from pay (assuming tax relief IS available) of | | £20.48 | for 12 months |

If only one year of service is reinstated, then the debt is £240, or alternatively A Active could choose to pay £20.48 monthly for 12 months (see Table 3). On completion of Part C of Section 1, a copy of the spreadsheet should be printed and saved on file and the option form should be completed and issued to the claimant.

When the option forms have been returned, values may be entered in cells E49 and E50 in Part D of Section 1. In the example, A Active has returned a form indicating that she wishes to purchase just five years of the excluded service. In this case, the cost would be £1,198 or £59.53 monthly over 21 months, starting within a limited period following the initial calculation date (in this case, the first deduction is assumed to be from the April 2004 payslip). There is some flexibility over the chosen start month for deductions from pay to be entered in cell F53 (with the year appearing automatically). The user can choose the earliest administratively convenient start-month from the drop-down options shown.

*Table 4: A Active - Final Debt Repayment Arrangements*

| Part D: TO BE COMPLETED AFTER RECEIVING COMPLETED OPTION FORMS FROM MEMBERS | | | |
|---|---|---|---|
| Is the member buying the full re-instatement period? | no | | |
| If no, then specify number of whole years being purchased (not more than 11) | 5 | Costing £1198, | or alternatively |
| | | 21 monthly deductions of £59.53 | |
| | | starting with payslip for | and ending with |
| Enter first deduction month in cell F53 | | April | December |
| | | 2004 | 2005 |

A Active has chosen to reinstate 5 years of the 135 full calendar months for which she was excluded. For the purpose of benefit calculations, the 5 years will be considered to be the 5 most recent years i.e. the period from 11 August 1983 to 10 August 1988. This information will be required by the Scheme administrators and when completing contracting-out documentation for DWP. Note that the number of years actually reinstated will count at full calendar length as "qualifying" service when determining qualification for benefits but will count at a pro-rata reckonable length when calculating the amount of benefits. The full-time equivalent pro-rata reckonable service can be calculated by multiplying the number of years reinstated by the average part time proportion, i.e. 5 years * 20% = 1 year of reckonable service.

### Additional comments in respect of Section 1 for actives

*Salary information*

Where the salary information at the date closest to the end of reinstatement period is not available, the salary as at the latest available date or some other earlier date may be used. Further information on the use of salaries can be found in the guidance document provided by your employer association.

## SECTION 1 OF MODEL - DEFERREDS

## Example 2 – Deferred Member

A Deferred is a deferred member of the Scheme at a current date (March 2004 at the time of writing). She wishes to receive an initial quotation of the amount of the contributions due if she re-instates previously excluded service. Her excluded period starts on 15 March 1990 and ends on 30 April 1995. Her Final Pensionable Salary (as defined under the Scheme rules) was £20,000 as at the date she left the Scheme in June 1998. During the excluded period, she worked an average of 15% of full time conditioned hours. The member contribution rate to the pension scheme would have been 6% throughout the excluded period. The member's lump sum at the calculation date (and including pension increases to date) is £625 if excluded service is ignored and £1,425 if it is assumed to be re-instated in full. Her date of birth is 25 April 1950.

For the initial quotation, the data entry cells should be cleared using the New Calculation button in the spreadsheet and then the yellow cells in Parts A and B of Section 1 should be completed. The completed Parts A and B for A Deferred are shown in Table 5.

*Table 5: Data input required for initial quotation for A Deferred*

**Reinstatement of Part Time Service Following the Preston Ruling**

**Teachers Pension Scheme**
**Model for repayments of outstanding member contributions and related calculations**

| Section 1: Initial calculation of repayment amounts | | | |
|---|---|---|---|

| **Part A: Data Needed for Every Case** | | | |
|---|---|---|---|
| Name | A Deferred | | |
| Date of Birth (dd/mm/yyyy) | 25/04/1950 | | |
| Initial quotation calculation or follow-up query subsequent to re-instatement decision? | Initial Quotation | | |
| Base calculation date for first quotation | 2004 | March | |
| Status at the base Calculation Date (i.e. active, deferred or pensioner) | Deferred | | |
| Start of reinstatement period (year/month/day) | 1990 | March | 15 |
| End of reinstatement period (year/month/day) | 1995 | April | 30 |
| Calendar reinstatement period rounded down to nearest whole month (Note this is NOT equal to the FTE service for reinstatement) | 61 | | |
| Type of Salary data | Final Pensionable Salary used in benefit calculation | | |
| Enter date of leaving service | 1998 | June | |
| Annual full time equivalent rate of pensionable salary at date above (FPS where applicable) | £20,000 | | |
| Assumed average percentage of conditioned hours worked during re-instatement period | 15% | | |
| Member's average contribution rate into the scheme during reinstatement period | 6.0% | | |
| **Part B: Data Needed for Calculations for Deferred Members Only** | | | |
| Member's preserved lump sum revalued to calculation date excluding reinstated service | £625 | | |
| Member's preserved lump sum revalued to calculation date assuming full reinstated service | £1,425 | | |

Once the data has been entered and checked, the information required for the initial quotation can be obtained from Part C of Section 1. This shows (see Table 6) that if A Deferred wishes to reinstate the full reinstatement period, she would have to pay £948 as a one-off payment or alternatively have 72.9% eventually deducted from the projected total retirement lump sum (including the element resulting from the re-instatement and allowing for future pension increases) when it becomes due.

*Table 6: A Deferred – Results for Initial Quotation*

| **Part C: Calculation Result** **Cost of full reinstatement** | |
|---|---|
| Total amount due (assuming tax relief NOT available) | £948 |
| Percentage deduction expected from the member's lump sum at eligible retirement date (if nothing paid now) | 72.9% |

If one year of service is reinstated (see Table 7), A Deferred would have to pay £186 as a one-off payment or alternatively have 26.1% deducted from the projected total retirement lump sum (including the element resulting from the reinstated year and allowing for future pension increases) when it becomes due.

*Table 7: A Deferred – Cost of Reinstating One Year*

| Cost of reinstating one year | |
|---|---|
| Total amount due (assuming tax relief NOT available) | £186 |
| Percentage deduction expected from the member's lump sum at eligible retirement date (if nothing paid now) | 26.1% |

On completion of Part C of Section 1, a copy of the spreadsheet should be printed and saved on file and the option form should be completed and issued to the claimant.

When the option forms have been returned, values may be entered in cells E49 and E50 in Part D of Section 1. In the example, A Deferred has returned option forms stating that she wishes to purchase only three years of excluded service. In this case, she would have to pay £559 as a one-off payment or have the contributions deducted from the benefits when they become due. She also has an option of paying part of the debt immediately and choosing to have the remaining amount deducted from the benefits when they become due. In the example, A Deferred chooses to pay £250 immediately. She will then have 30.9% deducted from the projected total retirement lump sum paid at Eligible Retirement Date (based on a current lump sum value of £1,097 (i.e. £625+£472)). The results are set out at Table 8, calculated based on the partial re-instatement.

*Table 8: Final Contribution Requirements*

| Part D: TO BE COMPLETED AFTER RECEIVING COMPLETED OPTION FORMS FROM MEMBERS | |
|---|---|
| Is the member buying the full re-instatement period? | No |
| If no, then specify number of whole years being purchased (not more than 5) | 3 |
| Member's preserved lump sum for reinstatement period purchased | £472 |
| Total amount now due to effect reinstatement | £559 |
| Cash amount to be paid at the point of reinstatement | £250 |
| Remaining amount of outstanding debt after cash payment (if any) | £309 |
| Percentage deduction expected from the member's lump sum at eligible retirement date | 30.9% |

A Deferred has chosen to reinstate 3 years. For the purpose of benefit calculations, the 3 years will be considered to be the 3 most recent years i.e. the period from 1 May 1992 to 30 April 1995. This information will be required by the Scheme administrators and when completing contracting-out documentation for DWP. Note that the number of years actually reinstated will count at full calendar length as "qualifying" service when determining qualification for benefits but will count at a pro-rata reckonable length when calculating the amount of benefits. The full-time equivalent pro-rata reckonable service can be calculated by multiplying the number of years reinstated by the average part time proportion, i.e. 3 years * 15% = 0.45 years of reckonable service.

**Additional comments in respect of Section 1 for deferred**

*Salary Information*

In this example the 'Final Pensionable Salary used in the benefit calculations' has been chosen. This is acceptable, although it may be preferable to use full time equivalent salary at end of reinstatement period if this is available. Further information on the use of salaries can be found in the guidance provided by your employer association.

## SECTION 1 OF MODEL - PENSIONERS

## Example 3 – Pensioner

A Pensioner is already in receipt of pension at a current date (March 2004 at the time of writing). She wishes to receive an initial quotation of the amount of contributions due if she re-instates service which was previously excluded starting from 1 September 1977 and ending on 28 February 1985. Her full-time equivalent final pensionable salary on subsequent exit in June 1988 was £7,500. It has been agreed that a reasonable estimate of the average percentage of conditioned hours worked during the excluded period was 25%, and she would have contributed at the rate of 6% had she not been excluded during this period. The member's lump sum at the calculation date in respect of the reinstated service only must be calculated allowing for

    i)      final pensionable salary at the date of exit
    ii)     any subsequent pension increases during any period of deferment
    iii)    any actuarial reduction factors applied for early payment
    iv)    interest for late payment in accordance with the regulations from the date of retirement to the calculation date

On this basis, the re-instated lump sum amounts at the calculation date to £1,250. A Pensioner's date of birth is 19 July 1935.

For the initial quotation, all the data cells should be cleared using the New Calculation button in the spreadsheet and the yellow cells in Parts A and B of Section 1 should be completed. Parts A and B of Section 1 for A Pensioner would be completed as set out in Table 9.

*Table 9: Data input required for initial quotation for A Pensioner*

**Reinstatement of Part Time Service Following the Preston Ruling**
**Teachers Pension Scheme**
**Model for repayments of outstanding member contributions and**
**related calculations**

**Section 1: Initial calculation of repayment amounts**

| Part A: Data Needed for Every Case | | | |
|---|---|---|---|
| Name | A Pensioner | | |
| Date of Birth (dd/mm/yyyy) | 19/07/1935 | | |
| Initial quotation calculation or follow-up query subsequent to re-instatement decision? | Initial Quotation | | |
| Base calculation date for first quotation | 2004 | March | |
| Status at the base Calculation Date (i.e. active, deferred or pensioner) | pensioner | | |
| Start of reinstatement period (year/month/day) | 1977 | September | 1 |
| End of reinstatement period (year/month/day) | 1985 | February | 28 |
| Calendar reinstatement period rounded down to nearest whole month (Note this is NOT equal to the FTE service for reinstatement) | 89 | | |
| Type of Salary data | Final Pensionable Salary used in benefit calculation | | |
| Enter date of leaving service | 1988 | June | |
| Annual full time equivalent rate of pensionable salary at date above (FPS where applicable) | £7,500 | | |
| Assumed average percentage of conditioned hours worked during re-instatement period | 25% | | |
| Member's average contribution rate into the scheme during reinstatement period | 6% | | |

| Part B: Data Needed for Calculations for Pensioners Only | | |
|---|---|---|
| Member's retirement lump sum at calculation date from reinstated service only, based on full reinstatement | £1,250 | (net of any actuarial reduction that is applicable but inclusive of any interest for late payment) |

Once the data has been entered and checked, the information required for the initial quotation can be obtained from Part C of Section 1. If A Pensioner wishes to reinstate the entire excluded period, the amount that is due is £1,341 (Table 10).

*Table 10: A Pensioner – Results for Initial Quotation*

| Part C: Calculation Result | |
|---|---|
| **Cost of full reinstatement** | |
| Total amount due (assuming tax relief NOT available) | £1,341 |

If only one year of service is reinstated, then the amount that is due is £181 (Table 11).

*Table 11: A Pensioner – Cost of reinstating one year*

| Cost of reinstating one year | |
|---|---|
| Total amount due (assuming tax relief NOT available) | £181 |

On completion of Part C of Section 1, a copy of the spreadsheet should be printed and saved on file and the option form should be completed and issued to the claimant.

When the option forms have been returned, values may be entered in cells E49 and E50 in Part D of Section 1. A revised calculation of the amount of the retirement lump sum will be required if the pensioner has opted to re-instate less than the maximum possible service, and this will then need to be entered in cell E53. In the example, A Pensioner has returned option forms stating that she wishes to purchase only six years of excluded service and the total retirement lump sum (as at the calculation date) is £1,011. In this case, the outstanding debt would amount to £1,085, and this will be deducted from the additional benefits that are due. If, as in this example, the re-instated lump sum (including interest) is insufficient to cover the outstanding sum for contributions due, the balance (£74 in this example) will need to be recovered from instalments of re-instated pension (including arrears where applicable).

*Table 12: Final Contribution Requirements*

| Part D: TO BE COMPLETED AFTER RECEIVING COMPLETED OPTION FORMS FROM MEMBERS | |
|---|---|
| Is the member buying the full re-instatement period? | **no** |
| If no, then specify number of whole years being purchased (not more than 7) | **6** |
| | |
| Total amount now due to effect reinstatement | **£1,085** |
| Member's retirement lump sum for partially reinstated service (net of actuarial reduction but including interest) | **£1,011** |
| Balance if any to be deducted from ongoing pension payments | **£74** |

For the purpose of benefit calculations, the 6 years will be considered to be the 6 most recent years i.e. the period from 1 March 1979 to 28 February 1985. This information will be required by the Scheme administrators and when completing contracting-out documentation for DWP. Note that the number of years actually reinstated will count at full calendar length as "qualifying" service when determining qualification for benefits but will count at a pro-rata reckonable length when calculating the amount of benefits. The full-time equivalent pro-rata reckonable service can be calculated by multiplying the number of years reinstated by the average part time proportion, i.e. 6 years * 25% = 1.5 years of reckonable service.

**Additional comments in respect of Section 1 for pensioners**

1) In many cases the required contributions will be greater than the additional retirement lump sum. In such cases, the member will not receive any additional lump sum and the additional amount of pension will be suspended until the required contributions have been recovered.

2) Sections 2, 3 and 4 of the model are not relevant to claimants who are already in receipt of pension at the original calculation date.

3) Only the "Initial Quotation" option is of relevance to this group.

4) In the vast majority of cases, the most appropriate salary definition is likely to be "final pensionable salary" for a pensioner.

## SECTION 2 OF MODEL– TAX RELIEF

Section 2 should be completed only if the member is an active member. The calculations in Section 1 of the Model assume full tax relief will be available. Section 2 should be used as a rough check as to whether this is a reasonable assumption.

The current gross **monthly** salary needs to be entered in cell F60 and the relevant contribution rates in cells E61 and E62.

Three different scenarios will be considered. These are:
   a) Sufficient tax relief is expected to be available for payment either by lump sum or by regular deduction from payroll
   b) Sufficient tax relief is expected to be available if paying by regular deduction but not if paying by lump sum.
   c) Tax relief is not expected to be sufficient under either method.

Note that the maximum level of tax relief available to a member will depend on that member's actual earnings in any tax year, information which will not usually be known in advance to the member or any other party. It is thus impossible to determine in advance with certainty whether sufficient tax relief will be available. Section 2 is therefore to be used only as a rough check, based on the member's current earnings.

## Example 4

## a) Sufficient tax relief under either method

In Example 1, A Active had opted to reinstate 5 years of service and the debt amounted to £1,198 as a lump sum or £59.53 over 21 months in the form of monthly deductions.

Assume that her salary has increased significantly since 1988, and that she now works full-time with current earnings of £2,000 per calendar month. Assume also that she is currently paying 6% of pensionable salary into the TPS and 2% additional contributions to a FSAVC arrangement. Section 2 should be completed as shown in Table 13.

*Table 13: Sufficient tax relief under either method*

| Section 2: Calculation of amount of contributions available for tax relief | | | |
|---|---|---|---|
| *Applies to active members as at original calculation date only* | | | |
| Current Gross Monthly Salary (actual not FTE) | | | £2,000 |
| Member's current contribution rate into the scheme (normally 6%) | | 6.00% | |
| Other pensions contributions as a percentage of pay | | 2.00% | |
| | | | |
| Balance of member's contributions for which tax relief available | | 7.00% | £140.00 |
| | | | Sufficient relief available |

In the above case, with a gross monthly salary of £2,000, a contribution rate of 6% to the scheme and an additional 2% contribution to an FSAVC, the amount of tax relief available to the member is probably sufficient to cover the contributions that are due whether paid by lump sum or in instalments.

## b) Tax relief insufficient if paying by lump sum

If (for example) an active member is opting to reinstate a large amount of service and their income has not increased significantly since the end of their excluded period, it may not be possible to claim full tax relief if paying by lump sum. In such cases, it would be advisable from the employer's perspective that the member should opt to pay by means of monthly deductions. This is illustrated in Table 14.

*Table 14: Insufficient tax relief if paying by lump sum*

| Section 2: Calculation of amount of contributions available for tax relief | | | |
|---|---|---|---|
| *Applies to active members as at original calculation date only* | | | |
| Current Gross Monthly Salary (actual not FTE) | | £1,000 | |
| Member's current contribution rate into the scheme (normally 6%) | 6.00% | | Lump sum exceeds limit for tax relief: Payment by lump sum not recommended |
| Other pensions contributions as a percentage of pay | 2.00% | | |
| Balance of member's contributions for which tax relief available | 7.00% | £70.00 | |
| | | Full Tax Relief may not be available | |

In the above case, with a gross monthly salary of £1,000, a contribution rate of 6% to the scheme and an additional 2% contribution to an FSAVC, the amount of tax relief available to the member is not sufficient if the member is paying by lump sum and so payments by monthly deductions would be preferable from the employer's perspective (but consideration could also be given to discontinuing the FSAVC). However, before making such a decision the member should be advised to seek advice from their solicitor, union or independent financial adviser.

If A Active decides nevertheless to pay by means of a single lump sum payment, the amount that she would have to pay would be less than the gross sum of £1,198 shown in Table 4. In Example 4(b), her gross taxable pay for the tax-year in which she makes the payment might be taken to be £12,000 (i.e. £1,000 x 12), and her total pension contributions can be taken to be 8% of gross taxable pay during the year, leaving a maximum tax relievable balance for the year of 7% of gross taxable pay, i.e. £12,000 x 7% = £840 (taking the total to 15%). So, of the £1,198 lump sum owed, £840 would receive tax relief leaving a balance of £358 with no tax relief. The employer should reduce the sum of £358 by the amount of tax relief that would otherwise have been granted i.e. £358 – 22% (as A Active's current top marginal rate is 22%) = £279.24. The total lump sum payment to be made by A Active would then be £840 + £279.24 = £1,119.24 (and not £1,198).
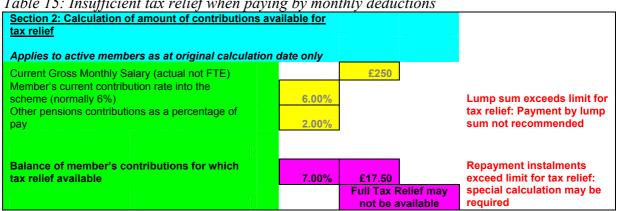
## c) Tax relief insufficient under either method

*Table 15: Insufficient tax relief when paying by monthly deductions*

| Section 2: Calculation of amount of contributions available for tax relief | | | | |
|---|---|---|---|---|
| *Applies to active members as at original calculation date only* | | | | |
| Current Gross Monthly Salary (actual not FTE) | | | £250 | |
| Member's current contribution rate into the scheme (normally 6%) | | 6.00% | | Lump sum exceeds limit for tax relief: Payment by lump sum not recommended |
| Other pensions contributions as a percentage of pay | | 2.00% | | |
| Balance of member's contributions for which tax relief available | | 7.00% | £17.50 | Repayment instalments exceed limit for tax relief: special calculation may be required |
| | | | Full Tax Relief may not be available | |

In Example 4(c), with a gross monthly salary of £250, a contribution rate of 6% to the scheme and an additional 2% contribution to an FSAVC, the amount of tax relief available to the member is not sufficient to cover in full the monthly deductions from pay that are required. It would be preferable from the employer's perspective if the member opted to re-instate less service or to reduce or eliminate the FSAVC contributions.

However, if the debt is to be met by monthly deductions from pay, in the example as now developed, A Active's monthly re-instatement deductions are £59.53 assuming full tax relief is available. If she chooses not to cease payment of her 2% FSAVC, then as her maximum tax relievable payment is £17.50 per month, she will not receive tax relief on £42.09 per month. The employer should reduce the sum of £42.09 by the amount of tax relief that would otherwise have been granted i.e. £42.09 – 22% (as A Active's current top marginal tax rate is 22%) = £32.83. The reinstatement payment each month would, therefore, be £17.50 + £32.83 = £50.33 (and not £59.53). However, if any factors alter (such as the gross monthly taxable pay, the top marginal tax rate, or the amount of basic or other pension contributions being paid), a recalculation of the monthly amount due from the member may be required.

## Additional comments in respect of Section 2

1) If the Inland Revenue removes the upper 15% tax relief limit from 6 April 2005 (or subsequently whilst periodical reductions are still being made), then the employee would be entitled to tax relief on total contributions of up to 100% of pay or, if greater, total contributions of £3,600 per year.

2) Where payments or periodical deductions are reduced on account of insufficient tax relief being available, a cost is in effect being passed on to the Teachers' Pension Scheme, although it is hoped that the aggregate amount of such will not in practice be excessive.

## SECTION 3 OF MODEL – ACTIVES LEAVING

### Example 5 – Active members who leave service before repaying all the outstanding contributions

Example 5 relates to Section 3 of the model, which applies to actives at the original calculation date who then leave before repaying their debt in full. This example is explained below in terms of further development of the example of A Active, who commences paying 21 regular monthly contributions of £59.53 in April 2004. Assume now that she subsequently leaves active service before paying off the full debt. As soon as possible after the date of leaving (or in some cases shortly before the date of leaving), the outstanding debt must be calculated. This requires use of Section 3 of the model.

However, before Section 3 can be completed, the user must complete Section 1 as follows:
- i)      Follow-up query needs to be chosen in cell E12;
- ii)     The rest of the data used in the fields in Section 1 must be completed from the paper file copy of the original calculation.

A completed version of Section 1 for the above case would be as shown in Table 16.

*Table 16: Section 1 for Active Member Leaving Service*

**Reinstatement of Part Time Service Following the Preston Ruling**
**Teachers Pension Scheme**
**Model for repayments of outstanding member contributions and related calculations**

**Section 1: Initial calculation of repayment amounts**

**Part A: Data Needed for Every Case**

| | | | |
|---|---|---|---|
| Name | A Active | | |
| Date of Birth (dd/mm/yyyy) | 19/07/1946 | | |
| Initial quotation calculation or follow-up query subsequent to re-instatement decision? | Follow-up query | | |
| If 'Follow-up query', date of calculation for original quotation | 2004 | March | |
| Base calculation date for first quotation | 2004 | March | |
| Status at the base Calculation Date (i.e. active, deferred or pensioner) | Active | | |
| Start of reinstatement period (year/month/day) | 1977 | April | 15 |
| End of reinstatement period (year/month/day) | 1988 | August | 10 |
| Calendar reinstatement period rounded down to nearest whole month (Note this is NOT equal to the FTE service for reinstatement) | 135 | | |
| Type of Salary data | Pensionable Salary (ideally at end of reinstatement period) | | |
| Enter applicable month & year for salary data | 1988 | August | |
| Annual full time equivalent rate of pensionable salary at date above (FPS where applicable) | £10,000 | | |
| Assumed average percentage of conditioned hours worked during re-instatement period | 20% | | |
| Member's average contribution rate into the scheme during reinstatement period | 6.0% | | |

**Part B: Data Needed for Active Member Calculation Only**

| | |
|---|---|
| Member's marginal tax rate at calculation date | 22% |

**Part C: Calculation Result**
**Cost of full reinstatement**

| | | |
|---|---|---|
| Total amount due (assuming tax relief IS available) OR | £2,696 | |
| Regular monthly deductions from pay (assuming tax relief IS available) of | £133.49 | for 21 months |

**Cost of reinstating one year**

| | | |
|---|---|---|
| Total amount due (assuming tax relief IS available) OR | £240 | |
| Regular monthly deductions from pay (assuming tax relief IS available) of | £20.48 | for 12 months |

**Part D: TO BE COMPLETED AFTER RECEIVING COMPLETED OPTION FORMS FROM MEMBERS**

| | | | |
|---|---|---|---|
| Is the member buying the full re-instatement period? | No | | |
| If no, then specify number of whole years being purchased (not more than 11) | 5 | costing £1198, | or alternatively |
| | 21 monthly deductions of £59.53 | | |
| | | starting with payslip for | and ending with |
| Enter first deduction month in cell F53 | | April 2004 | December 2005 |

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Once Section 1 is completed appropriately, values may be entered into the yellow cells in Section 3.  In the example, assume that A Active leaves active service at the end of May 2004 (having paid two monthly instalments), and that she has a preserved lump sum (including all of the service she opted to reinstate) of £13,500 at the date of leaving. The entries required in Part A of Section 3 are set out in Table 17.

*Table 17: Data input required for A Active on leaving service*

| SECTION 3: Calculation of outstanding debt for members who do not complete repayment before ceasing to be active | | |
|---|---|---|
| **Part A: Data Needed** | | |
| Month of Final Employee Contribution (assumed to be final day of month) | 2004 | May |
| Member's preserved lump sum (including all reinstated service) at date of leaving service | £13,500 | |

Part B of Section 3 would then give the results set out in Table 18, showing that there is an option of paying £850 as a one-off payment at the date of leaving to redeem the outstanding debt immediately, or alternatively to have 6.5% deducted from the projected total lump sum (including the element resulting from the reinstatement and allowing for future pensions increases) when it becomes due.

*Table 18: Outstanding debt for active leaving service*

| | |
|---|---|
| Current total amount of outstanding debt (assuming tax relief NOT available)  OR | £850 |
| Percentage deduction expected from the member's retirement lump sum at eligible retirement date | 6.5% |

It is intended that a subsequent issue of the model will include an option to partially redeem the outstanding debt at the point of exit.

## SECTION 4 OF MODEL – RE-INSTATED DEFERREDS REQUIRING FURTHER QUOTATION

### Example 6 – Deferred member who wants to pay off all the outstanding contributions before Normal Retirement Age

Example 6 refers back to the case of A Deferred previously covered in Example 2. A Deferred had originally (in March 2004) opted to re-instate 3 years of her 61 months of excluded service, and had paid off £250 of the total contribution debt of £559, leaving a balance of £309 projected to amount to 30.9% of her total retirement lump sum (including re-instated service).

A Deferred now (i.e. at some point between March 2004 and April 2010) wishes to ascertain the amount of the debt remaining outstanding, so that Section 4 of the model will need to be completed.

However, before Section 4 can be completed, the user must complete Section 1 as follows:
  i)    Follow-up query needs to be chosen in cell E12
  ii)   The rest of the data entered in the fields in Section 1 must be extracted from the paper file copy of the original calculation.

A completed version of Section 1 for the above case would be as set out in Table 19.

*Table 19: Section 1 for a deferred member if Section 4 needs completion*

**Reinstatement of Part Time Service Following the Preston Ruling**
**Teachers Pension Scheme**
**Model for repayments of outstanding member contributions and related calculations**

| | | | |
|---|---|---|---|
| **Section 1: Initial calculation of repayment amounts** | | | |
| **Part A: Data Needed for Every Case** | | | |
| Name | A Deferred | | |
| Date of Birth (dd/mm/yyyy) | 25/04/1950 | | |
| Initial quotation calculation or follow-up query subsequent to re-instatement decision? | Follow-up query | | |
| If 'Follow-up query', date of calculation for original quotation | 2004 | March | |
| Base calculation date for first quotation | 2004 | March | |
| Status at the base Calculation Date (i.e. active, deferred or pensioner) | deferred | | |
| Start of reinstatement period (year/month/day) | 1990 | March | 15 |
| End of reinstatement period (year/month/day) | 1995 | April | 30 |
| Calendar reinstatement period rounded down to nearest whole month | 61 | | |
| (Note this is NOT equal to the FTE service for reinstatement) | | | |
| Type of Salary data | Final Pensionable Salary used in benefit calculation | | |
| Enter date of leaving service | 1998 | June | |
| Annual full time equivalent rate of pensionable salary at date above (FPS where applicable) | £20,000 | | |
| Assumed average percentage of conditioned hours worked during re-instatement period | 15% | | |
| Member's average contribution rate into the scheme during reinstatement period | 6.0% | | |
| **Part B: Data Needed for Calculations for Deferred Members Only** | | | |
| Member's preserved lump sum revalued to calculation date excluding reinstated service | £625 | | |
| Member's preserved lump sum revalued to calculation date assuming full reinstated service | £1,425 | | |
| **Part C: Calculation Result** | | | |
| **Cost of full reinstatement** | | | |
| Total amount due (assuming tax relief NOT available) | £948 | | |
| Percentage deduction expected from the member's lump sum at eligible retirement date (if nothing paid now) | 72.9% | | |
| **Cost of reinstating one year** | | | |
| Total amount due (assuming tax relief NOT available) | £186 | | |
| Percentage deduction expected from the member's lump sum at eligible retirement date (if nothing paid now) | 26.1% | | |
| **Part D: TO BE COMPLETED AFTER RECEIVING COMPLETED OPTION FORMS FROM MEMBERS** | | | |
| Is the member buying the full re-instatement period? | no | | |
| If no, then specify number of whole years being purchased (not more than 5) | 3 | | |
| Member's preserved lump sum for reinstatement period purchased | £472 | | |
| Total amount now due to effect reinstatement | £559 | | |
| Cash amount to be paid at the point of reinstatement | £250 | | |
| Remaining amount of outstanding debt after cash payment (if any) | £309 | | |
| Percentage deduction expected from the member's lump sum at eligible retirement date | 30.9% | | |

Assuming that the request for a further quotation is made in July 2004, the data entries for Part A of Section 4 would be as set out in Table 20.

*Table 20: Data requirements to calculate amount outstanding for deferred member*

| Section 4: Calculation for quotation of outstanding debt during deferment period *For those now in deferred status, either in active or in deferred status at original calculation date* | | |
|---|---|---|
| **Part A: Data Needed** | | |
| Was the member active or deferred when the original debt was first calculated? | **Deferred** | |
| Date as at which the outstanding debt is to be recalculated (assumed to be final day of month) | **2004** | **July** |

The Section 4 results are now given in Part B, as shown in Table 21. Interest added from March to July has led to the debt increasing from £309 to £313, and the latter amount is that required if A Deferred decides to pay off the debt in full in July 2004 (and assuming no tax relief is available).

*Table 21: Debt Outstanding*

| **Part B: Calculation Result** | | |
|---|---|---|
| Original Debt at Calculation Date | | **£309** |
| Current value of outstanding debt | | **£313** |

This section of the model can also be used for an active member who leaves service, becomes a deferred member and then at some future date wishes to pay off the whole of the outstanding debt, and this is covered in Example 7 below.

## SECTION 4 OF THE MODEL – RE-INSTATED FORMER ACTIVES (NOW DEFERREDS) REQUIRING FURTHER QUOTATION

### Example 7 – Active member who becomes deferred and then at a later stage chooses to pay off the outstanding debt as a lump sum

Example 7 refers back to the case of A Active previously covered in Examples 1, 4 and 5. She left service at the end of May 2004 leaving an outstanding debt of £850 projected to represent 6.5% of her retirement lump sum (including re-instated service) when it eventually becomes due.

A Active now (i.e. at some point between May 2004 and August 2006) wishes to ascertain the amount of the debt remaining outstanding, so that Section 4 of the model will need to be completed.

However, before Section 4 can be completed, the user must complete Sections 1 and 3 as follows:
  i)      Follow-up query needs to be chosen in cell E12
  ii)     The rest of the data entered in the fields in Sections 1 and 3 must be extracted from the paper file copies of the original Section 1 calculation and the subsequent Section 3 calculation at the point of exit.

Completed versions of Sections 1 and 3 for the above Section 4 case would be as set out in Tables 22A and 22B.

*Table 22A: Completing Section 1 prior to using Section 4 of the model for an originally active member*

**Reinstatement of Part Time Service Following the Preston Ruling**
**Teachers Pension Scheme**
**Model for repayments of outstanding member contributions and related calculations**

**Section 1: Initial calculation of repayment amounts**

**Part A: Data Needed for Every Case**

| | | | |
|---|---|---|---|
| Name | A Active | | |
| Date of Birth (dd/mm/yyyy) | 19/07/1946 | | |
| Initial quotation calculation or follow-up query subsequent to re-instatement decision? | Follow-up query | | |
| If 'Follow-up query', date of calculation for original quotation | 2004 | March | |
| Base calculation date for first quotation | 2004 | March | |
| Status at the base Calculation Date (i.e. active, deferred or pensioner) | active | | |
| Start of reinstatement period (year/month/day) | 1977 | April | 15 |
| End of reinstatement period (year/month/day) | 1988 | August | 10 |
| Calendar reinstatement period rounded down to nearest whole month (Note this is NOT equal to the FTE service for reinstatement) | 135 | | |
| Type of Salary data | Pensionable Salary (ideally at end of reinstatement period) | | |
| Enter applicable month & year for salary data | 1988 | August | |
| Annual full time equivalent rate of pensionable salary at date above (FPS where applicable) | £10,000 | | |
| Assumed average percentage of conditioned hours worked during re-instatement period | 20% | | |
| Member's average contribution rate into the scheme during reinstatement period | 6.0% | | |

**Part B: Data Needed for Active Member Calculation Only**

| | |
|---|---|
| Member's marginal tax rate at calculation date | 22% |

**Part C: Calculation Result**

**Cost of full reinstatement**

| | | |
|---|---|---|
| Total amount due (assuming tax relief IS available) OR | £2,696 | |
| Regular monthly deductions from pay (assuming tax relief IS available) of | £133.49 | for 21 months |

**Cost of reinstating one year**

| | | |
|---|---|---|
| Total amount due (assuming tax relief IS available) OR | £240 | |
| Regular monthly deductions from pay (assuming tax relief IS available) of | £20.48 | for 12 months |

**Part D: TO BE COMPLETED AFTER RECEIVING COMPLETED OPTION FORMS FROM MEMBERS**

| | | | |
|---|---|---|---|
| Is the member buying the full re-instatement period? | No | | |
| If no, then specify number of whole years being purchased (not more than 11) | 5 | costing £1198, | Or alternatively |
| | 21 monthly deductions of £59.53 | | |
| | | starting with payslip for | And ending with |
| Enter first deduction month in cell F53 | | April 2004 | December 2005 |

*Table 22B: Completing Section 3 prior to using Section 4 of the model for an originally active member*

| SECTION 3: Calculation of outstanding debt for members who do not complete repayment before ceasing to be active | | |
|---|---|---|
| **Part A: Data Needed** | | |
| Month of Final Employee Contribution (assumed to be final day of month) | **2004** | **May** |
| Member's preserved lump sum (including all reinstated service) at date of leaving service | **£13,500** | |
| | | |
| Current total amount of outstanding debt (assuming tax relief NOT available) OR | **£850** | |
| Percentage deduction expected from the member's retirement lump sum at eligible retirement date | **6.5%** | |

Assuming that the request for a further quotation is made in July 2004, the data entries for Part A of Section 4 would be as set out in Table 23.

*Table 23: Section 4 data requirements for an original active*

| Section 4: Calculation for quotation of outstanding debt during deferment period *For those now in deferred status, either in active or in deferred status at original calculation date* | | |
|---|---|---|
| **Part A: Data Needed** | | |
| Was the member active or deferred when the original debt was first calculated? | **active** | |
| Date as at which the outstanding debt is to be recalculated (assumed to be final day of month) | **2004** | **July** |

The Section 4 results are now given in Part B, as shown in Table 24. Interest added from May to July has led to the debt increasing from £850 to £855, and the latter amount is that required if A Active decides to pay off the debt in full in July 2004 (and assuming no tax relief is available).

*Table 24: Debt Outstanding*

| **Part B: Calculation Result** | | | |
|---|---|---|---|
| | | | |
| Original debt at leaving service | | | **£850** |
| | | | |
| Current value of outstanding debt | | | **£855** |