

Phased Retirement

What is phased retirement?

Phased retirement was introduced as part of the reform amendments in 2007 and is a flexible provision in the Northern Ireland Teachers Pension Scheme (NITPS) that offers members greater choice about the way they manage the transition from work to retirement. For many, the cliff edge approach to retirement (where someone moves from full-time employment to full-time retirement over the space of a weekend) no longer meets their needs or expectations. Phased retirement provides for a more managed transition from work to retirement by enabling NITPS members to continue in work in a reduced capacity (by moving to part-time working or by relinquishing some responsibilities), but would want to supplement their reduced income by drawing down some of their pension benefits.

Main features of the Scheme

The scheme incorporates the following features:

- Reduced capacity will require a minimum reduction in pensionable income of 25% that would last for at least 12 months;
- Draw down of pension benefits can be on two separate occasions before final retirement;
- Benefits taken before Normal Pension Age (NPA) would be subject to actuarial reduction;
- No qualifying period is needed in respect of further service;
- No abatement on pension drawdown where payments have been actuarially reduced. This means pension payments will not be reduced even if pension and post retirement earnings exceed previous earnings;
- A member will have 6 months from the date of leaving their higher paid post to find a post with the required reduction in salary. They will have

3 months to make an application for phased retirement from the date they find the new post. The phased retirement benefits will be payable to the member from the date they commence the new post;

- Members may decide how much they wish to take of their total benefits accrued at the commencement of phased retirement. They may only take up to maximum of 75% of their total benefits. Remaining service, which must be at least 25% will be aggregated with any further service accrued after claiming phased retirement benefits initially and then used in any future benefits calculations;
- If a member opts to draw phased retirement benefits prior to NPA, their benefits must be actuarially reduced;
- If a teacher becomes ill after taking first or second stage of phased retirement they may still apply for ill-health benefits based upon their remaining service in the scheme;

Who can take a phased retirement?

Phased retirement is available to those aged 55 and over who, with the agreement of their employer, change the capacity in which they are working so that their pensionable salary is reduced by at least 25% compared to the average of the salary they have received during the preceding six months. The reduction in salary, which must last for at least 12 months, could be as a result of moving to part time work or taking up a post with less responsibility. If you wish to take a phased retirement, you must apply to Teachers' Pensions within three months of taking up your new employment.

How much of my pension benefits can I take?

You can take up to a total of 75% of the pension benefits that you have in the NITPS at the date your phased retirement begins. If you take them before your normal pension age, your benefits will be actuarially reduced to take account of the fact that they have been put into payment early and they will be in payment for longer.

Do I have to take 75% of my benefits?

No. You can take any proportion up to a total of 75%. There has to be a 25% reduction in your pensionable salary at phased retirement and the benefits you take cannot exceed 75% of the benefits that are available to you at phased retirement.

Can I take more than one phased retirement?

Yes you can take up to two phased retirements before final retirement. When you take your second phased retirement the amount you may receive is a maximum of 75% of your remaining service, which includes the service accrued following your first phased retirement.

Does my employer need to be involved?

Yes, you can only access phased retirement benefits if you are reducing the capacity in which you are working and that can only be done with the agreement of your employer. Your employer will need to certify that you have taken up, or will be taking up, a lower paid post which meets the criteria for phased retirement. The new appointment may be with a different employer. The application form must be signed by the employer responsible for your new working arrangement.

What are the benefits to my employer?

This arrangement encourages teachers to carry on teaching and helps schools to retain experienced members of staff.

What happens if my salary goes above the 25% reduction in the first 12 months after my phased retirement?

Your application will be void and future pension payments will be suspended. There may also be an unauthorised payment charge from HM Revenue and Customs of 40% of the lump sum you have received.

What happens to the service that is not used in the phased retirement calculations?

Remaining service, which must be at least 25%, will be aggregated together with any subsequent service you accrue to be used in any future benefit calculations.

What happens if I become ill after taking phased retirement?

If you have taken phased retirement then you may apply to receive ill-health benefits based upon your remaining service in the TPS.

Example of member who takes Phased Retirement (has been in service prior to 1 April 2007 and has NPA of 60)

Jane is a 55 year old science teacher who can draw her unreduced pension at age 60. Her annual salary is £40,000 and she has 30 years' service. She was considering retirement, but wanted to carry on teaching in some capacity. With the support of her employer she has decided on a phased retirement. Jane has decided to give up some of her duties and reduce her salary by £10,000. She will also draw 50% of her pension benefits immediately.

This means that Jane will receive an immediate lump sum payment of £17,392*. She will then receive an annual pension of £5,797* plus her reduced salary of £30,000. The pension in payment will be subject to annual inflation increases.

* An actuarial reduction has been applied because Jane is taking some of her pension benefits before her normal pension age of 60.

If Jane continues to work for another five years before deciding to retire completely at age 60, she will receive a further pension and lump sum. These further pension benefits will be based on 15 years remaining service plus 5 years of new service and will use the average of the best consecutive three years' salaries in the last 10 years (reviewed to take account of inflation) as that would provide a higher benefit than using Jane's actual salary at retirement.