

Spouses' & Children's Pension Scheme

September 2005 sees the introduction by the Department of Education & Science of a new Revised Spouses and Children's Pension Scheme. The Revised Scheme is similar to the Existing Scheme but unlike the Existing Scheme it includes cover for:

- spouses of members who marry after retirement
- all children whether born within a marriage or not
- children born while you are in retirement.

Members of the Existing Scheme pay a contribution rate of 1.5% whereas the contribution rate for the Revised Scheme is:

- 1.5% of salary for members transferring across from the Existing Scheme to the Revised Scheme
- 1.5% of salary for those who take up service after Sept 1st 2005
- 2% of salary for those who opted out of joining the Existing Scheme in 1969/1981.

Below is a useful guide to some of members more 'frequently asked questions'. You're likely to find the answer to your questions here but if you don't, Cornmarket will be happy to answer them for you - simply contact Cornmarket on 01 408 4025 to arrange an appointment with one of Cornmarket's consultants.

Questions & Answers

This leaflet attempts to explain in straightforward terms the contents of the Department of Education and Science Circular PEN 14/05. It is not intended to be a definitive guide encompassing every issue related to the new Scheme. This means it is important that this document is read in conjunction with Circular PEN 14/05.

Q1: have received a Circular from the Department of Education and Science in relation to the Spouses' and Children's Pension Scheme. Is this Circular relevant to me or does it apply only to those teachers who opted out of the scheme in 1969/1981?

A: This Circular is of relevance to all teachers. It gives those teachers who are not in the existing Spouses' and Children's Pension Scheme an option to join now – this scheme will be known as the Revised Scheme. It gives those teachers who are already in the existing scheme an option to join the Revised Scheme. The Circular, therefore, has relevance to all teachers and should be considered carefully and responded to by each teacher.

Q2: What is the Spouses' and Children's Pension Scheme?

A: The Spouses' and Children's Pension Scheme determines what happens to a teacher's/retired teacher's pension when s/he dies, either in service or in retirement. In the case of a member of the scheme, a portion of his/her pension transfers to his/her spouse and/or children following the teacher's death. When a teacher who is not a member of the scheme dies, pension ceases to be paid by the DES. The Spouses' and Children's Pension Scheme therefore governs one issue, namely, what happens to a teacher's pension when s/he dies.

Q3: When was the Spouses' and Children's Pension Scheme introduced?

A: The Spouses' and Children's Pension Scheme was introduced in 1969 and is compulsory for all male teachers who commenced pensionable service on or after 1st July 1969. (The scheme was then known as the Widows' and Orphan's Scheme.) The vast majority of male teachers are therefore members of the scheme. However, male teachers who were in service on 1st July 1969 (at the time the scheme was introduced) were given the option of remaining outside the scheme. For a male teacher not to be in the scheme, he would, therefore, have had to commence pensionable service prior to July 1969 and have exercised his option not to join the scheme. In the case of female teachers, membership of the re-titled Spouses' and Children's Pension Scheme generally became compulsory for female teachers commencing pensionable service from 1st June 1981. Women who commenced teaching since that date are therefore in the scheme. Female teachers who were in service on 1st June 1981 were given an option of remaining outside of the scheme. Many female teachers decided to 'opt-out' of the scheme in 1981 and, therefore, the number of women not in the scheme is significantly greater than the number of men not in the scheme.

Note 1: While 1st June 1981 was the official commencement date, in practice, teachers were allowed up to 1st November 1981 to decide their position.

Q4: Do teachers who are in the Spouses' and Children's Pension Scheme contribute a higher percentage of salary to their superannuation fund?

A: Teachers contribute 5% of salary in superannuation deductions to secure for themselves a pension and lump sum on retirement. Teachers who are members of the Spouses' and Children's Scheme contribute an additional 1.5% of salary (total 6.5%) to the superannuation fund. It is this additional 1.5% contribution that provides an additional benefit, i.e., the transfer of a portion of the pension to a surviving spouse and/or children following death.

Generally, teachers who are members of the scheme will have two pension deductions, ie PINS 5% and PINS 1.5% recorded on their salary slip, whereas teachers who opted out of the scheme will only have one pension deduction recorded, namely PINS 5%.

A teacher must have a contribution to the Spouses' and Children's Pension Scheme for each year of pensionable service. Teachers whose careers commenced before they joined the scheme (1969 men/1981 women) must also pay a contribution for those years of service prior to joining the scheme. This is done at the time of retirement by means of a deduction from lump sum. For example, a woman teacher who joined the scheme in 1981 but who commenced teaching in 1971 must make up those 10 'missing years' at the time of retirement. The cost of making up such missing years is 1% of salary per outstanding year. It would therefore cost 10% of final annual salary (deducted from lump sum) to make up 10 outstanding years. Tax relief will apply which will reduce the actual cost.

In summary, therefore teachers contribute 1.5% of fortnightly salary to the Spouses' and Children's Pension Scheme. If arrears arise (i.e. the teacher's career commenced before s/he joined the scheme), outstanding contributions are made up at the time of retirement by means of a deduction from lump sum.

Note 2: 5% of gross salary for teachers in service prior to 06/04/95. 1.5% of gross salary and 3.5% of net salary for teachers who joined or rejoined the service since 06/04/95 and who will be in receipt of a co-ordinated pension at the time of retirement.

Note 3: This will be recorded as three pension deductions in relation to teachers who joined or rejoined the service since 06/04/95, i.e. PINS 1.5%, PINS 3.5%, PINS 1.5%.

Q5: What proportion of a teacher's pension transfers to a surviving spouse and/or children following the teacher's death?

A: Where a teacher dies in service, 50% of the teacher's maximum potential pension is transferred to the surviving spouse. Where a retired teacher dies, 50% of his/her pension is transferred to the surviving spouse.

An additional amount to the spouses' pension can be paid where the teacher/retired teacher is survived by eligible children. An 'eligible child' is a child up to age 16 or up to age 22 if in full time education. No upper age limit applies in respect of a child with a recognised disability.

Q6: Are the contribution rates for people now joining the scheme higher than for those teachers currently in the scheme?

A: Yes. As outlined in question 4 above, teachers currently in the scheme are contributing to the schemes at a rate of 1.5% per fortnight and are making up missing years (where they arise) by a deduction of 1% of final salary per outstanding year.

The rates for teachers who are now joining (having opted out in 1969/1981) are a half percent higher in each case, i.e. 2% per fortnightly salary plus a contribution of 1.5% of final salary per outstanding year, deducted from lump sum at the time of retirement. These rates have been actuarially assessed and reflect the fact that teachers who are now joining at a later stage in their career are paying ongoing contributions over a significantly shorter period.

Q7: Is there a significant cost attached to joining the scheme now in respect of a teacher who opted out in 1969/1981?

A: Yes. A teacher opting into the scheme now must make a contribution to the scheme in respect of each year of pensionable service. This means that the teacher will contribute to the scheme by way of fortnightly deductions from salary of 2% for the remainder of his/her career. In addition, this teacher will have to pay a contribution in respect of his/her service prior to joining the scheme.

Example: A woman teacher commenced teaching in 1970, exercised her option not to join the scheme in 1981, but decides to 'opt in' on this occasion and retires in 2010. This teacher will pay ongoing contributions of 2% from her salary between 2004 and 2010. At the time of her retirement, provided she is married, she will have to make up 34 years contributions. The outstanding contributions for these 34 years would be deducted from her lumpsum at a rate of 1.5% of annual salary for each of the 34 years.

In the above example, a teacher who has 34 years to make up at the time of retirement will have a contribution of 51% of her final salary deducted from her lumpsum. Tax relief on this pension payment would be allowed which would significantly reduce the cost.

Note 4: Membership of the scheme will be backdated to 1st April 2004 in respect of those teachers opting into the scheme at this juncture. (See Question 11)

Q8: Is it a worthwhile investment to join the scheme at this stage in my career?

A: There is no simple answer to this question. Joining the scheme now, particularly for a teacher coming towards the end of his/her career will give rise to a significant deduction from the teacher's lumpsum at the time of retirement.

However, notwithstanding the cost, it is a question that needs careful consideration particularly by a teacher who has or may have a spouse and/or children. A number of key factors have to be taken into consideration, including:

- marital status
- whether the teacher's spouse has adequate means/pension provision in his/her own right;
- the comparative ages of husband and wife;

- the ages of any children;
- whether or not there is a child with a recognised disability;
- the health status of the husband and wife;
- tax relief implications;
- alternative coverage (if any) already in place by means of Added Voluntary Contributions, life insurance policies, etc.

Q9: Will the INTO advise me as to what I should do?

A: The INTO will be happy to assist members in explaining the provisions of the Circular (PEN 14/05) and in understanding their options. However, it is the view of the INTO, that members seek professional financial advice. This advice can be obtained from recognised financial advisors, accountants, etc. Cornmarket Group Financial Services Ltd, who have a particular expertise in relation to teachers' salaries, pensions and investments, have agreed to assist members in evaluating their options, and the INTO would advise members to avail of their expertise and assistance. The fee for this service will be €75.

Q10: How long do I have to make up my mind and what action is required of me?

A: You have until 31st March 2006 to consider your option and to take appropriate advice. You will already have received a pre-printed form from the Department of Education and Science, ie Form Sp/02. Simply indicate in the appropriate box whether you wish to join the scheme or alternatively whether you wish to remain outside the scheme. The completed Form Sp/02 must be returned to the DES by 31st March 2006. Please note that this form must be returned to the DES even in circumstances where you are choosing to remain outside the scheme.

Q11: If I am joining the scheme now, when will deductions commence from my salary?

A: Deductions will commence in September 2006. However, the effective date of admission to the scheme is 1 April 2004 and consequently arrears from 1st April 2004 to 31 August 2006 will arise. These arrears can be repaid over a number of salary payments.

Q12: Is the option to join the scheme open to teachers already retired?

A: The option is open to any teacher who was in service between 31st March 2004 and 31st August 2005. It is therefore open to a teacher who was in service during this period but who has since retired, to join the Revised Scheme, subject of course to meeting the contribution requirements.

Q13: If I join the scheme now can I increase my fortnightly deductions so that I can reduce the amount of arrears I will have to pay at the time of retirement?

A: Yes. It is open to a teacher to pay additional contributions while in service in order to reduce liability for payment at the time of retirement. A teacher contributing 2% per fortnight salary can elect to pay multiples of 2%, subject to not exceeding Revenue Limits for tax relief. (These limits vary from 15% of salary [age 30 or lower] to 30% of salary [age 50 or more].)

Q14: I joined the existing scheme in 1969/1981 and I am now being asked if I wish to join the Revised Scheme. What is the difference between the original scheme and the Revised Scheme?

A: Both schemes provide benefits to the spouse and/or children of a teacher who dies. However, the potential coverage of the Revised Scheme is broader and more comprehensive in the following respects:

- a spouse is entitled to benefit even where the marriage takes place after retirement (the existing scheme only covers marriages that take place prior to retirement);
- all children (including non marital children) of the scheme member are covered. (The existing scheme only covers children of a marriage of the member, conceived prior to retirement or step-children of a marriage that took place before retirement or children adopted prior to retirement.)

Note: To secure Spouses' benefit, a marriage recognised by the state must have taken place. This provision still remains.

Q15: If I am currently a member of the scheme and opt to join the Revised Scheme, will my contribution rates increase?

A: No. Teachers already in the existing scheme will continue to contribute at 1.5% per fortnightly salary. (The increased rate of 2% per fortnightly deduction only applies to teachers who opted out in 1969/1981 and who are now joining the Revised Scheme.)

Q16: Is there any draw back to changing from the original scheme to the Revised Scheme?

A: Yes in certain circumstances. Under the existing scheme, teachers who are single at the time of retirement receive a refund of their contributions (less tax adjustment) to the Spouses' and Children's Pension Scheme. Teachers who are widowed/widowers at the time of retirement may receive a partial refund of their Spouses' and Children's Pension Scheme contributions. However, unlike the existing scheme, the Revised Scheme provides potential benefits to a teacher in retirement (eg, if s/he marries in retirement). Therefore, members who change to the Revised Scheme and who are single or whose spouses' are deceased at the time of retirement will not receive full/partial refunds at the time of retirement.

Q17: How long do I have to make up my mind and what action is required of me?

A: You have 6 months (1st October 2005 to 31 March 2006) to consider your option and to take appropriate advice. You will already have received a pre-printed form from the Department of Education and Science, i.e. Form Sp/01. Simply indicate in the appropriate box whether you wish to remain in the existing scheme or transfer to the Revised Scheme. The completed Form Sp/01 must be returned to the DES by 31st March 2006.

Please note: This form must be returned to the DES even in circumstances where you are choosing to remain in the original scheme.

Q18: Can all teachers choose between the original or Revised Scheme?

A: No. The only teachers who can choose between the two schemes are those teachers (in service between 31st March 2004 and 31st August 2005) who are already in the existing scheme. They can elect to remain in the original scheme or join the Revised Scheme. Teachers who opted out in 1969/1981 and who are now joining for the first time must join the Revised Scheme. Teachers commencing their careers from 1st September 2005 onwards will be joining the Revised Scheme. Teachers returning to service after a break in service must join the Revised Scheme. (A Career Break / approved leave [paid or unpaid] will not constitute a break in service.)



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