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Scottish Teachers' Superannuation Scheme consultees

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7 October 2011

Dear Colleague

Scottish Teachers' Superannuation Scheme Consultation – Employee contribution increases

In his address to Parliament on 21 September on the Scottish Spending Review 2011, the Cabinet Secretary for Finance, Employment and Sustainable Growth, John Swinney, announced the Scottish Government's decision to reluctantly apply employee contribution increases for the NHS, Teachers', Police and Firefighters' schemes in Scotland.

Attached is a copy of the consultation on proposed increases to employee contribution rates effective from April 2012 for the Scottish Teachers' Superannuation Scheme.

Responses should be sent by email to stsspensionsreform@scotland.gsi.gov.uk or by mail to the following address no later than 17 November 2011:

STSS Pensions Reform
Policy Branch
SPPA
7 Tweedside Park
Tweedbank
Galashiels
TD1 3TE

A copy of the consultation documentation is also available on the Agency's website at www.sppa.gov.uk/stss/consultations.

Yours faithfully



Chad Dawtry
Director of Policy

Copies to:

COSLA

Scottish Local Authorities

Colleges of Further and Higher Education

Scotland's Colleges

Scottish Further Education Unit

Higher Education Establishments

Scottish Independent Schools

Scottish Council for Independent Schools

Workers Educational Association

Scottish Qualifications Authority

Educational Institute for Scotland

Scottish Secondary Teachers' Association

VOICE the union

National Association of Schoolmasters/Union of Women Teachers

Association of Headteachers and Deputies

School Leaders Scotland

University and College Union

Association of Teachers and Lecturers

Scottish Government

HM Treasury

Government Actuary's Department

Department for Education, England & Wales

Department for Education, Northern Ireland

NHS Pensions Agency

Department of Communities and Local Government

Department for Work and Pensions

Ministry of Defence

Audit Scotland

General Teaching Council

Scottish Funding Council

Scottish Council for Research in Education

Women's National Commission

SCOTTISH TEACHERS' SUPERANNUATION SCHEME

CONSULTATION ON PROPOSED INCREASES TO EMPLOYEE CONTRIBUTION RATES EFFECTIVE FROM APRIL 2012

1. Purpose

This is a consultation by the Scottish Government on proposals for potential increases in the level of contributions scheme members will be required to make to the Scottish Teachers' Superannuation Scheme (STSS) from 1 April 2012.

This consultation will run for six weeks, from 7 October 2011 to 17 November 2011. The Scottish Government invites views on the proposals contained in this document; the questions it poses; and related issues which consultees believe should have a bearing on the implementation of these proposals.

The Scottish Government will continue to discuss the proposals outlined in this document with members of the Management Advisory Group (Scotland) (MAG(S)) – the partnership group representing employer, staff and Scottish Government interests which advises the Scottish Government on matters concerning the STSS.

2. Background

Occupational pensions policy is reserved to Westminster. The UK Government is committed to a programme of reform of public service pensions, which draws on conclusions and recommendations made by Lord Hutton of Furness in his independent review of public service pension schemes commissioned by the Chancellor of the Exchequer in June 2010. The UK Government has made it clear that it expects its proposals to apply to public service schemes across the UK, including those in Scotland.

Broadly, the UK Government's proposed reforms incorporate:

- ◆ increases in the amount public servants will be required to pay towards their pensions from April 2012; and
- ◆ longer-term reforms to redesign the content and governance of public service pension schemes, which are expected to apply from April 2015.

This consultation is solely concerned with the first of these proposed reforms – increases in employee contribution rates which might apply to the STSS.

The UK Government has made clear its intention that public sector workers should pay an average of 3.2% of pay more for their pensions by April 2014. It intends to introduce increases progressively – so that lower paid workers receive some protection and higher earners pay proportionately more for their pensions. It also intends to introduce these increases in three increments: 40% from April 2012; a further 40% from April 2013 and the final 20% from April 2014.

This consultation concerns the increases which might apply from April 2012 for the STSS only.

In due course, the Scottish Government will consult on proposals for potential second and third year increases and on any proposals for longer-term reforms of public sector pension schemes in Scotland.

3. The Scottish Government's position on employee contribution rate increases

The Scottish Government remains committed to public service pension schemes that are affordable, sustainable and fair for public service workers and taxpayers alike. It recognises the importance of ensuring that those who have devoted their working life to public service are able to enjoy good quality pensions in retirement alongside its role of ensuring that public finances are used constructively and for the good of Scotland's communities.

Against that context, the Scottish Government has made it very clear that at a time of pay constraint and pressure on household finances - and in the absence of clear evidence of immediate need - the UK Government's policy of increasing employee contributions is unwarranted and disruptive.

However, despite repeated representations to the UK Government to allow a different course of action to be taken in Scotland, Her Majesty's Treasury has reiterated its intention that, should increases not be applied in Scotland, the Scottish budget will be reduced by £8.4 million per month.

Such a reduction would reduce the level of public sector employment and run contrary to the direction of the Scottish Government's employment policy. In light of the UK Government's position, the Scottish Government has concluded that, regrettably, it has no choice other than to apply the increases in employee pension contributions the UK Government has proposed from April 2012, unless it can persuade the UK Government to change direction.

4. Principles

The Scottish Government takes its commitment to affordability, sustainability and fairness in public sector pension deals seriously. In developing the range of proposed increases, it has therefore paid considerable attention to protecting the low paid; minimising the risk of opt outs from the scheme; and ensuring that the additional burdens fall on those with the greatest ability to meet them, so that higher paid members pay proportionately more.

Our proposals on protection include:

- ◆ reinforcing the importance the Scottish Government attaches to the Scottish Living Wage, by ensuring that full time scheme members earning less than £15,000 a year will face no increases at all;
- ◆ offering partial protection to the newest members of the scheme to reduce the risk of opt-out.

Additionally, the Scottish Government is aiming to ensure that no-one in Scotland pays higher levels of contributions than their UK counterparts.

In these ways, the Scottish Government is endeavouring to make these changes as fair as possible.

As a starting point, the rates set out in this document are those which are currently being consulted upon for the scheme in England and Wales. We welcome consultees views on how appropriate these rates will be in the context of the requirement to deliver the overall level of savings required by the UK Government.

5. Increase of contributions in 2012-13

The Scottish Government's proposed new rates are set out in Table 1 below and are based on those proposed by the Department for Education in its consultation issued on 28 July 2011 for members of the Teachers' Pension Scheme in England and Wales, and show that:

- Those earning less than £15,000 (full-time equivalent rate) will pay nothing extra;
- Those earning up to £26,000 (full-time equivalent rate) will pay no more than 0.6% of pay extra in 2012-13 (before tax relief);
- Higher earners will pay extra, but no more than 2.4% of pay in 2012-13 (before tax relief).

<u>Table 1: Proposed increases to contribution rates (before tax relief)</u>			
Full Time Equivalent pensionable pay	Contribution rate 2011/12	Contribution rate 2012/13	Contribution rate increase in 2012/13
Up to £14,999	6.4%	6.4%	0%
£15,000 to £25,999	6.4%	7.0%	0.6%
£26,000 to £31,999	6.4%	7.3%	0.9%
£32,000 to £39,999	6.4%	7.6%	1.2%
£40,000 to £74,999	6.4%	8.0%	1.6%
£75,000 to £111,999	6.4%	8.4%	2.0%
£112,000 and above	6.4%	8.8%	2.4%

Based on the above a member would pay the same contribution rate on their whole salary i.e. a member earning £30,000 would pay 7.3% of £30,000, rather than 6.4% on the first £15,000, 7% on the next £11,000 and 7.3% on the final £4,000. Under the current scheme they would pay 6.4% which equals a contribution of £1,920 per year but from 2012 their new contribution rate is of 7.3%, which equals £2,190 per year. Annex A sets out an indicative reduction in take home pay (i.e. after tax relief) for different salaries.

It is proposed that the contribution tier in which a member falls will be determined by reference to their full-time equivalent salary, e.g. a member with a working pattern of 50% with a FTE salary of £46,000 (actual pay £23,000) would pay a contribution of 8.0% of their salary in 2012-13. The rationale for this approach is that it is a member's FTE salary which is used to calculate their pension entitlement and it would be unfair to full-time staff to treat part-time staff differently.

Based on the England and Wales proposals the salary up to which members should pay no more than a 1.5 percentage point increase is set at £26,000. This will mean that, generally, teachers in the first 2 years of their career will face a limited increase in contributions and anticipates that this will significantly minimise the risk of increased opt-out rates.

The rationale based on the English and Wales proposals for each of the proposed tiers is:

Below £15,000 – no increase. This protects members with the lowest FTE salary.

£15,000 - £25,999 – this band represents probationer teachers and those on the first spine point of the SNCT Main Grade salary scale.

£26,000 - £31,999 – this band represents main grade classroom teachers in the middle of the SNCT Main Grade salary scale.

£32,000 - £39,999 – this band represents main grade classroom teachers at the top end of the main grade SNCT salary scale and Principal Teachers on the first and second spine points of the SNCT Principal Teacher pay scale.

£40,000 – £74,999 - this band largely represents teachers on the SNCT Principal Teacher salary scale and the Depute Headteachers and Headteachers salary scale.

£75,000 - £111,999 – this band represents experienced Depute Headteachers and Headteachers at the top end of the SNCT salary scale.

£112,000 and above –In line with progressive contributions those earning the most should contribute a higher percentage of their income, up to a cap of 6 percentage points increase.

In applying the increases in this way, we have sought to ensure that all newly qualified teachers will only pay 0.6% more (before tax relief) in 2012-2013.

Unlike the other unfunded schemes the STSS does not share UK wide pay scales. In recognising that fact we are also seeking views on whether the increases in contributions should reflect Scottish pay scales. Any Scottish specific rates or tiers must still deliver the anticipated yield of 3.2% of pensionable pay by 2014/15 with 40% of that yield being delivered in 2012/13. As an example table 2 reflects SNCT pay scales in tiers 2 and 3 and if introduced would provide wider protection to classroom teachers than those under the England and Wales proposals.

<u>Table 2: Proposed increases to contribution rates (before tax relief) reflecting initial SNCT pay scales</u>			
Full Time Equivalent pensionable pay	Contribution rate 2011/12	Contribution rate 2012/13	Contribution rate increase in 2012/13
Up to £14,999	6.4%	6.4%	0%
£15,000 to £25,716	6.4%	7.0%	0.6%
£25,717 to £32,394	6.4%	7.3%	0.9%
£32,395 to £38,826	6.4%	7.6%	1.2%
£38,827 to £74,999	6.4%	8.0%	1.6%
£75,000 to £111,999	6.4%	8.4%	2.0%
£112,000 and above	6.4%	8.8%	2.4%

Broadly the above provides similar increases but provides wider protection for the proposed tier 3 increase to SNCT pay spine point 5.

Question 1. Should we adopt the England and Wales proposals or adjust them to reflect circumstances in Scotland as long as these still achieve the required yield for 2012/13?

6. Examples of what this could mean for individuals

STSS employee contributions are deducted from gross pay before income tax is deducted. As a result, their contributions normally benefit from significant tax relief.

The contribution rate after tax relief is the percentage of total pay by which take-home pay is reduced as a result of the increase to pension contributions. This shows the beneficial effect of tax relief on pension contributions.

The following are examples of how the proposed increases for 2012-13 set out above could affect individual members. As a STSS member:

(a) working full-time with a pensionable pay of £25,716

Current contribution rate	6.4%
Proposed contribution rate	7%
Current annual contributions	£1646
Proposed annual contributions	£1800
Current monthly cost before tax relief	£137
Current monthly net of tax relief	£110
Proposed monthly before tax relief	£150
Proposed monthly cost net of tax relief	£120
Estimated net monthly increase	£10

(b) working full-time with a pensionable pay of £34,200

Current contribution rate	6.4%
Proposed contribution rate	7.6%
Current annual contributions	£2189
Proposed annual contributions	£2599
Current monthly cost before tax relief	£182
Current monthly net of tax relief	£146
Proposed monthly before tax relief	£217
Proposed monthly cost net of tax relief	£174
Estimated net monthly increase	£28

(c) working full-time with a pensionable pay of £40,377

Current contribution rate	6.4%
Proposed contribution rate	8.0%
Current annual contributions	£2584
Proposed annual contributions	£3230
Current monthly cost before tax relief	£215
Current monthly net of tax relief	£172
Proposed monthly before tax relief	£269
Proposed monthly cost net of tax relief	£215
Estimated net monthly increase	£43

(d) working full-time with a pensionable pay of £75,402

Current contribution rate	6.4%
Proposed contribution rate	8.4%
Current annual contributions	£4826
Proposed annual contributions	£6334
Current monthly cost before tax relief	£402
Current monthly net of tax relief	£241
Proposed monthly before tax relief	£528
Proposed monthly cost net of tax relief	£317
Estimated net monthly increase	£76

Question 2. How might any Scotland specific adjustments fit with our policy of ensuring that no one in Scotland pays higher levels of contributions than their UK counterparts?

Question 3. Do the proposed tiered employee contributions from April 2012 achieve the appropriate balance between:

- protecting the low paid;
- minimising potential opt out from the scheme; and
- ensuring that they are set progressively, so that higher earners pay proportionately more?

Question 4. Do you consider that there are any potential equality issues? For example, is there anything in the proposals that might result in individual groups being disproportionately affected by the proposed contribution tiering?

Question 5. Are there any other specific issues around these potential increases that you would like the Scottish Government to consider?

7. Administration Implications of Tiered Contribution Rates

Seven tiers are proposed to ensure that the objectives are achieved without creating a disproportionate administrative burden on employers.

Two alternatives for employers to establish the salary rate at which contributions will be calculated are proposed;

Option 1

To ensure that members understand how tiered contribution rates operate, the first proposal is that the contribution rate applicable for the year will be set at the beginning of the year and, subject to significant salary increases or decreases, would remain throughout 2012-13. It is proposed that an individual member's contribution rate would be set using their FTE salary as at 31 March 2012. i.e. if a member is earning £30,000 on that date their contribution rate would be 7.3% of their actual salary each month of the following year.

The exception to this would be where a member has a significant pay increase or decrease during the year 2012-13, where it may be appropriate to reset their contribution rate to ensure fairness between members on the same salary. However, the threshold for reviewing a member's contribution rate needs to balance equity and fairness against the administrative burden. SPPA would welcome views on what that threshold should be.

For those who are new to the scheme in 2012-13, it is proposed that their contribution rate would be determined by reference to their FTE salary on appointment. For members with multiple employments, it is proposed that the member would have a contribution rate for each separate employment, based on the FTE salary in that employment on 31 March 2012. Again, SPPA would welcome views on this proposal.

Option 2

The Scottish Government recognises that in most cases teachers' pay progression, as well as career moves, takes place in August and setting the FTE salary level at 31 March may not be appropriate. The alternative is to make contribution payments based on the salary within that month (on a pro-rata basis). To provide examples;

A teacher's FTE salary for August is £2,500 per month. To calculate the contribution applicable the employer multiplies the monthly salary by 12 ($£2,500 \times 12 = £30,000$) to calculate the contribution rate, which in this case would be 7.3%.

Should that teacher's salary increase in September to £2,700 per month, the employer would calculate the contribution rate ($£2,700 \times 12 = £32,400$) as 7.6%.

Question 6. Two alternative proposals have been provided to calculate the FTE salary to set the contribution rate. Which alternative do you consider effectively balances equity, fairness and administration considerations? Do you propose an alternative method?

Question 7. From an administration perspective, do you consider that seven tiers are administratively appropriate? If not, what alternative do you propose?

Question 8. If the contribution rate is set for each year, do you think it would be appropriate to review this for significant changes in salary? If so, what threshold should be used?

Question 9. Do you consider that proposals for determining the contribution rate for new staff and those with multiple-employment are appropriate?

A full Equality Impact Assessment evaluating the approach proposed for the STSS in respect of the proposed increase in contributions will be published in due course.

This consultation does not invite comments on the contribution rates in 2013-14 and 2014-15 as these will be subject of further discussion. This consultation concerns proposed increases relating to 2012-13 only.

The closing date for receipt of comments is **17 November 2011**.

Responses should be made by completing the Consultation Response Form attached to this letter and which can either be submitted to stsspensionsreform@scotland.gsi.gov.uk or by mail to:

Pension Reform Consultation
Policy Branch (STSS)
SPPA
7 Tweedside Park
Tweedbank
Galashiels
TD1 3TE

8. Next steps after the consultation ends

The Scottish Government will respond to this consultation by publishing draft regulations which will also be the subject of further consultation. In addition, a summary of the responses to this consultation will be made available on the SPPA website.

9. Confidentiality of Information

We need to know how you wish your response to be handled and, in particular, whether you are happy for your response to be made public. It would be helpful if you would complete and return the Consultation Response Form which forms part of the consultation questionnaire as this will ensure that we treat your response appropriately. If you ask for your response not to be published we will regard it as confidential, and we will treat it accordingly.

All respondents should be aware that the Scottish Government are subject to the provisions of the Freedom of Information (Scotland) Act 2002 and would therefore have to consider any request made to it under the Act for information relating to responses made to this consultation exercise.

Pensionable annual earnings in relevant year (£)		Reduction in member take-home pay (annually) as a result of contribution structure shown in the main text (£)*
Lower	Upper	2012-13
Below	15000	0
15000	15999	74
16000	16999	79
17000	17999	84
18000	18999	89
19000	19999	94
20000	20999	98
21000	21999	103
22000	22999	108
23000	23999	113
24000	24999	118
25000	25999	122
26000	26999	191
27000	27999	198
28000	28999	205
29000	29999	212
30000	30999	220
31000	31999	227
32000	32999	312
33000	33999	322
34000	34999	331
35000	35999	341
36000	36999	350
37000	37999	360
38000	38999	370
39000	39999	379
40000	40999	518
41000	41999	531
42000	42999	544
43000	43999	557
44000	44999	570
45000	45999	560
46000	46999	446
47000	47999	456

48000	48999	466
49000	49999	475
50000	50999	485
51000	51999	494
52000	52999	504
53000	53999	514
54000	54999	523
55000	55999	533
56000	56999	542
57000	57999	552
58000	58999	562
59000	59999	571
60000	60999	581
61000	61999	590
62000	62999	600
63000	63999	610
64000	64999	619
65000	65999	629
66000	66999	638
67000	67999	648
68000	68999	658
69000	69999	667
70000	70999	677
71000	71999	686
72000	72999	696
73000	73999	706
74000	74999	715
75000	75999	906
76000	76999	918
77000	77999	930
78000	78999	942
79000	79999	954
80000	80999	966
81000	81999	978
82000	82999	990
83000	83999	1002
84000	84999	1014
85000	85999	1026
86000	86999	1038
87000	87999	1050
88000	88999	1062
89000	89999	1074
90000	90999	1086
91000	91999	1098
92000	92999	1110

93000	93999	1122
94000	94999	1134
95000	95999	1146
96000	96999	1158
97000	97999	1170
98000	98999	1182
99000	99999	1194
100000	100999	1206
101000	101999	1218
102000	102999	1230
103000	103999	1242
104000	104999	1254
105000	105999	1266
106000	106999	1278
107000	107999	1290
108000	108999	1302
109000	109999	1314
110000	110999	1326
111000	111999	1338
112000	112999	1620
113000	113999	1634
114000	114999	1649
115000	115999	1663
116000	116999	1678
117000	117999	1692
118000	118999	1706
119000	119999	1721
120000	120999	1735
121000	121999	1750
122000	122999	1764
123000	123999	1778
124000	124999	1793
125000	125999	1807
126000	126999	1822
127000	127999	1836
128000	128999	1850
129000	129999	1865
130000	130999	1879
131000	131999	1894
132000	132999	1908
133000	133999	1922
134000	134999	1937
135000	135999	1951
136000	136999	1966
137000	137999	1980

138000	138999	1994
139000	139999	2009
140000	140999	2023
141000	141999	2038
142000	142999	2052
143000	143999	2066
144000	144999	2081
145000	145999	2095
146000	146999	2110
147000	147999	2124
148000	148999	2138
149000	149999	2153
150000	150999	2167

*approximate estimate for salaries within each band

The calculation is based on 2011-12 income tax bands (and for those with FTE salaries above £46K the table shows the position of those entitled to tax relief at 40%).

**SCOTTISH TEACHERS' SUPERANNUATION SCHEME
CONSULTATION ON PROPOSED INCREASES TO EMPLOYEE CONTRIBUTION
RATES EFFECTIVE FROM 1 APRIL 2012
CONSULTATION RESPONSE FORM**

Please Note this form should be returned with your response to ensure that we handle your response appropriately. An electronic version of the form can be accessed at www.sppa.gov.uk/stss/consultations.

1. Name/Organisation

Organisation Name

Title

Surname

Forename

2. Postal Address

Postcode

Phone

Email

3. Permissions - I am responding as...

Individual

or

Group/Organisation

(a) Do you agree to your response being made available to the public (in Scottish Government library and/or on the Scottish Government web site)?

Please state yes or no: _____

(b) Where confidentiality is not requested, we will make your responses available to the public on the following basis

Please state yes to one of the following:

Yes, make my response, name and address all available *or*

Yes, make my response available, but not my name and address *or*

Yes, make my response and name available, but not my address

(c) The name and address of your organisation **will be** made available to the public (in the Scottish Government library and/or on the Scottish Government web site).

Are you content for your **response** to be made available?

Please state yes or no:

(d) We will share your response internally with other Scottish Government policy teams who may be addressing the issues you discuss. They may wish to contact you again in the future, but we require your permission to do so. Are you content for Scottish Government to contact you again in relation to this consultation exercise?

Please state yes or no:

CONSULTATION QUESTIONS – Please give reasons for your answers.

Within the context of the principles set out in the consultation document, your comments are invited on the preferred approach to delivering the required savings by increasing employee contributions to the Scottish NHS Superannuation Scheme by the amounts set out in Table 1 below.

Proposed increases to contribution rates (before tax relief)			
Full Time Equivalent pensionable pay	Contribution rate 2011/12	Contribution rate 2012/13	Contribution rate increase in 2012/13
Up to £14,999	6.4%	6.4%	0%
£15,000 to £25,999	6.4%	7.0%	0.6%
£26,000 to £31,999	6.4%	7.3%	0.9%
£32,000 to £39,999	6.4%	7.6%	1.2%
£40,000 to £74,999	6.4%	8.0%	1.6%
£75,000 to £111,999	6.4%	8.4%	2.0%
Over £112,000	6.4%	8.8%	2.4%

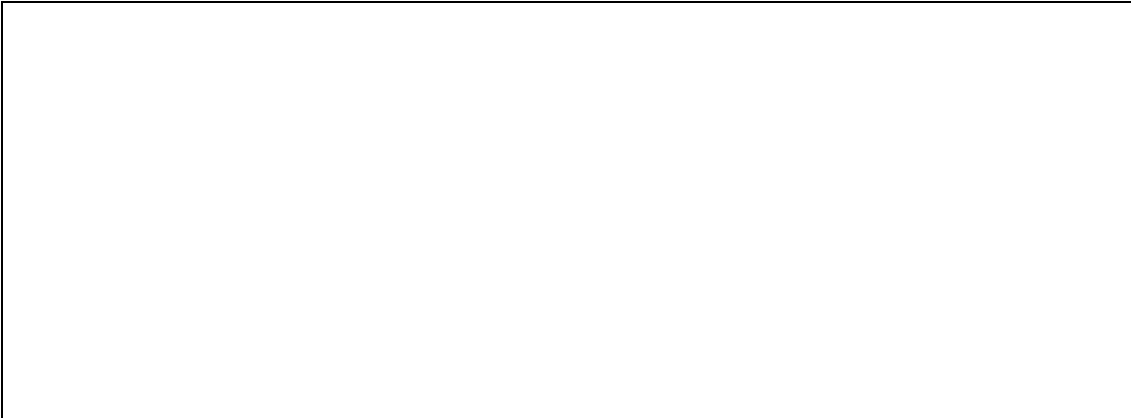
Question 1. Should we adopt the England and Wales proposals or adjust them to reflect circumstances in Scotland as long as these still achieve the required additional contribution yield for 2012/13?

Question 2. How might any Scotland specific adjustments fit with our policy of ensuring that no one in Scotland pays higher levels of contributions than their UK counterparts?

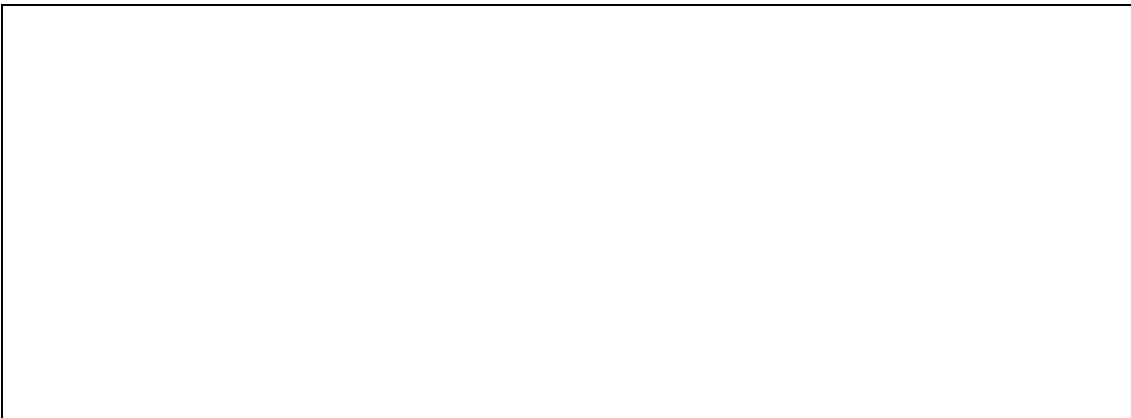
Question 3. Do the proposed tiered employee contributions from April 2012 achieve the appropriate balance between:

- **Protecting the low paid;**
- **Minimising potential opt out from the scheme; and**
- **Ensuring that they are set progressively, so that higher earners pay proportionately more?**

Question 4. Do you consider that there are any potential equality issues? For example, is there anything in the proposals that might result in individual groups being disproportionately affected by the proposed contribution tiering?



Question 5: Are there any other specific issues around these potential increases that you would like the Scottish Government to consider?



Question 6. Two alternative proposals have been provided to calculate the FTE salary to set the contribution rate. Which alternative do you consider effectively balances equity, fairness and administration considerations? Do you propose an alternative method?

Question 7. From an administration perspective, do you consider that seven tiers are administratively appropriate? If not, what alternative do you propose?

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Question 9. Do you consider that proposals for determining the contribution rate for new staff and those with multiple-employment are appropriate?

Please e-mail your response to stsspensionsreform@scotland.gsi.gov.uk or send to:

STSS Pensions Reform
Policy Branch
SPPA
7 Tweedside Park
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Galashiels
TD1 3TE

Closing date for receipt of comments is 17 November 2011.