SCOTTISH TEACHERS' SUPERANNUATION SCHEME
CONSULTATION ON PROPOSED REFORMS

October 2006

CONTENTS

[1] These and a number of detailed issues will be the subject of continuing negotiations between unions, employers, the Department for Education and Skills (DfES), the Department for Education Northern Ireland (DENI) and the Scottish Public Pensions Agency (SPPA) during the consultation period.

1. Executive Summary

1.1 Ensuring a first class defined benefit (i.e. benefits are based on length of pensionable service and salary and not dependent on stock market performance) occupational pension scheme for teachers both now and for the future has been the driving force behind the approach to the reform of the Teachers' Pension Schemes. Sustainability is key and we believe these proposals will provide existing and new members with a high quality pension scheme that they will consider a valuable part of their remuneration package.

We listened to what you said the last time we consulted and have incorporated a number of the features that you said you wanted into the package of improvements and reforms. Many of these will be reflected in the arrangements for new entrants and the modifications to the scheme for existing members.

This consultation document seeks views on a package of reforms to the Scottish Teachers' Superannuation Scheme (STSS)[2] that has been agreed following discussions on a UK basis for all 3 teachers' pension schemes between teachers' unions, employer representatives and Government. The consultation will run until 5th January 2007 and details of how you can let us have your views are in section 4.

This review of the STSS has considered all aspects of pension provision for teachers and has sought to introduce changes that a) result in a modernised STSS with increased choice and flexibility for members; b) introduce improvements to the scheme's provisions; and c) ensure the long term financial sustainability of the scheme.

A summary of the overall package of changes for both new entrants and existing members is set out in section 2. The principles for each provision have been agreed between teacher unions, employer organisations and Government through the Teachers' Pensions Review Group and the Management Advisory Group (Scotland) following productive negotiations since the Public Services Forum (PSF) meetings in 2005.

A key element of those principles was that scheme reforms would include a pension age of 65 for new entrants. Existing scheme members could retain a pension age of 60 so long as the cost of providing that protection was met by the membership. The package of reforms set out in this document meets that requirement. All parties were, however, keen to ensure that the way in which the cost of allowing existing members to retain a pension age of 60 was dealt with

[2] Separate consultations are taking place in respect of the Teachers' Pension Schemes in England and Wales, and Northern Ireland.

equitably between existing members and new entrants. This has been achieved through an agreement under which all scheme members will pay the same contribution rate of 6.4%, but new entrants who would have a pension age of 65 would benefit from an improvement in the rate at which their pension builds (the accrual rate). Whilst existing members will retain an accrual rate of 1/80th of salary for each year of service, with a lump sum of 3 times their pension, the accrual rate for new entrants would be 1/60th of salary for each year of service, with complete flexibility over the amount of lump sum taken within the overriding limits set by Her Majesty's Revenue and Customs (HMRC).

The 2001 valuation of the STSS identified a need for the employers' contribution rate to increase by 1.0% to 13.5% from 1 April 2006, however, it was decided to defer implementation of this increase until 1 April 2007. The next full scheme valuation (as at 31 March 2005) is not yet available, as data for this is currently being prepared by SPPA. The Government Actuary's Department has estimated that the overall impact of the 2005 STSS valuation, assuming the proposed reforms are introduced, will be an approximate increase in combined employer and employee contribution rate of 1.15%. As part of the proposed cost sharing arrangement in these proposals, this increase would be addressed through an increase in members' contribution rate of 0.4% (as set out in the preceding paragraph) and an increase in employer rate of 0.75% (i.e. to 14.25%). The increase in employers' contribution rate will be confirmed when the 2005 valuation is received and hence this will be implemented in April 2008.

2. Summary of Agreed Package of Reforms and Improvements

2.1 **The reform package agreed for new entrants from 1 April 2007 will include:**

- Normal Pension Age (NPA) of 65;
- Minimum Retirement Age of 55, except on grounds of ill-health;
- Pension based on $^{1}/_{60th}$ of salary for each year of pensionable service with the flexible option to take up to 25% of 'fund value' after commutation as a tax free lump sum by surrendering £1 of annual pension for £12 of lump sum;
- Benefits payable to nominated dependent partners (opposite-sex and same-sex);
- Spouses', surviving civil partners' and nominated dependent partners' pensions paid for life;
- Revised ill-health retirement package – tiered approach with a higher level of benefits for total incapacity and lower level of benefits for partial incapacity;
- The better of the last year's salary or the 're-valued (in line with the Retail Price Index (RPI)) average of the best three consecutive years salary in the last ten years of service' to be used for calculating benefits at retirement;
- A facility to purchase up to £5,000 of added annual pension;
- A death grant of 3 times salary;
- Phased retirement arrangements that would enable STSS members under defined circumstances to continue working as a teacher within the STSS while drawing down some or all of their accrued pension benefits; and
- Actuarial enhancement for those who continue in work beyond NPA of 65 without accessing their pension benefits.

2.2 **For existing members, a NPA of 60 will be retained and the current arrangements will be modified and improved in the following ways:**

- Minimum Retirement Age of 55 by 2010 except on grounds of ill-health;
- Benefits payable to nominated dependent partners (opposite-sex and same-sex);
- Spouses', surviving civil partners' and nominated dependent partners' pensions paid for life;
- The better of the last year's salary or the 're-valued (in line with RPI) average of the best three consecutive years salary in the last ten years of service' to be used for calculating benefits at retirement;
- Revised ill-health retirement package – tiered approach with a higher level of benefits for total incapacity and lower level of benefits for partial incapacity;
- More scope to take a higher tax free lump sum and a lower level of pension;
- A facility to purchase up to £5,000 of added annual pension;
- An increase in the death grant to 3 times salary; and
- Phased retirement arrangements that would enable STSS members under defined circumstances to continue working as a teacher within the STSS while drawing down some or all of their accrued pension benefits.

3. The Proposals

3.1 Timing – implementing the new arrangements

3.1.1 In order to allow enough time for a full public consultation and the opportunity to take responses on board and to publicise the outcome, it is proposed that the revised pension arrangements should apply from 1 April 2007.

New entrants will be defined as those who enter the scheme with no previous pensionable service to their credit and those who return to teaching having been out of pensionable service for more than five years.

Teachers who have currently been out of pensionable service for more than five years, but who return to teaching by 31 March 2008 will do so under the existing scheme provisions irrespective of the length of break in service. Those who re-enter pensionable service after 31 March 2008, following a break of service of more than 5 years, will be subject to the provisions that apply to new entrants as set out in section 2 in respect of their future service. Benefits already accrued, however, would still be payable at age 60.

Discussions are continuing to determine the appropriate minimum period of scheme membership that must be undertaken after a break in pensionable service in order that teachers who have a subsequent break in service could return at a later date and retain NPA of 60 in respect of their future service.

There will be more flexibility and greater choice over important issues such as how teachers can save and plan for retirement, allowing them to reap the benefits of being part of the STSS during their working life as well as in retirement. For example, all teachers will be able to choose a retirement date that is different from their normal pension age.

3.1.2 **Case Studies**:

a) Existing Teacher

Sarah is 45; she joined the profession straight from university at age 23. She took a break to have her children and this resulted in a 4 year gap in service. She has a NPA of 60 and assuming she remains in pensionable employment until she is 60, her pension calculations will be based on 33 years service. Assuming a final salary for calculation purposes of £37,000 an illustration of what her benefits may be follows.

Before commutation

Pension	£37,000 x 33/80 =	£15,263
Lump Sum	(3 x pension)	£45,789

Under the new proposals she can commute an amount between the current 3/80ths and up to a maximum of 25% of the fund value after commutation into a lump sum. The maximum proportion of pension that can be commuted is 19.64% of her pension (this percentage has been calculated by the Government Actuary). Therefore the maximum pension that can be commuted is £2998 (£15,263 x 19.64%). This would provide an additional lump sum of £35,976 (£2,998 x12). This means that Sarah could have a maximum lump sum of £81,765 i.e. an additional £35,976 on top of the 3/80ths based lump sum of £45,789.

For every £12 of additional lump sum taken, Sarah's pension would be reduced by £1. So, if she decided to increase her lump sum to the maximum amount allowed, her pension would be reduced by £2,998 from £15,263 to £12,265. However, if Sarah decided to increase her lump sum by say only an additional £24,000 to a total of £69,789 (this would cost £2,000 (£2000 x 12), her pension would be reduced from £15,263 a year to £13,263 a year .

Figures have been rounded to nearest pound.

(b) New entrant

Paul becomes a teacher in September 2007 aged 35 years and he retires in 2037 aged 65. Assuming a final salary for calculation purposes of £40,000 (using today's values) he would be entitled to the following pension.

Before commutation

Pension £40,000 x 30/60 = £20,000.00

He can commute up to a maximum of 25% of the fund value after commutation into a lump sum. The maximum proportion of pension that can be commuted is 35.71% (this percentage has been calculated by the Government Actuary and is higher because there is no fixed lump sum). Therefore, the maximum proportion of pension that can be commuted is £7,142 (£20,000 x 35.71%). In Paul's case he could have a maximum lump sum of £85,704 (£7,142 x 12). For every £12 of lump sum taken, Paul's pension would be reduced by £1.

Therefore he could commute a maximum of £7,142 of his pension and receive a lump sum of £85,704.

After maximum commutation

Pension	£	12,858 (i.e. £20,000 minus £7,142)
Lump Sum	£	85,704

Figures have been rounded to nearest pound.

(c) Carol has 15 years service. She is currently in the middle of a 4 year break working overseas. She intends to return to the classroom in April 2009, after the 4 year break, meaning her future service continues to accrue with a NPA of 60.

After a further year of service, making a total of 16 to April 2010, Carol joins her partner in America and is out of service until October 2016. When she returns, NPA of 65 applies to her future service, but this is with a $^{1}/_{60th}$ accrual rather than $^{1}/_{80th}$ accrual. She continues in employment for another 15 years until she is 60, at which point she retires.

For Carol, 16 years of her service are calculated using NPA of 60 ($^{1/}_{80th}$ pension plus $^{3}/_{80th}$ lump sum) and 15 years at NPA of 65 ($^{1}/_{60th}$ plus choice over amount of lump sum). She could take all her benefits age 60 with an actuarial reduction on the 15 years at NPA of 65 (because they are being taken early), or she could take her NPA of 60 benefits and leave the NPA of 65 benefits until she reaches 65 so that no reduction would be applied.

(d) Jim, who has taken time off to look after his elderly parents but fully intends to return to teaching, hears about the changes to the STSS from reading the TES. He has already been out of service for four years. He secures a part-time contract to teach in a local school from April 2007 to November 2007. Jim eventually returns to the classroom full-time in the early part of 2009 and works to retirement. For Jim, all his service is calculated on the basis of NPA of 60.

3.2 Salary used for calculating pension benefits

3.2.1 Need for change

One of the key aims of STSS modernisation was to create a more flexible scheme and the provisions proposed will support members who want to manage the transition to retirement over a period of time.

The need for this flexibility is backed by the fact that already an increasing number of teachers are taking Actuarially Reduced Benefits (ARB) and then returning to teaching.

In addition, the existing final salary approach of using the best year in the last 3 years before the date of retirement does not take into account circumstances where a teacher's highest salary does not occur in the last 3 years before they retire. For example, if they have moved between sectors with a resulting reduction in salary or had been subject to a period of cash conservation which had ended, their most beneficial salary may fall outside the 3 year period.

While the current provisions of early retirement with ARB, stepping-down and the part-time arrangements do provide some support for those who seek a change of pace or want less responsibilities, we recognise that more could be done to support more modern working patterns by those closer to retirement. In particular, the stepping-down arrangements require specified criteria to be met and the individual to make an election at the time that they move to a less responsible post. Under these proposed arrangements, protection from a detrimental effect on pension benefits would happen automatically with no election forms or the need for any action on the part of the individual.

In addition, we want to retain the valuable skills and experience that people have accumulated throughout their careers through a more flexible approach that would enable them to continue to make a positive contribution while, for example, reducing the capacity in which they work.

3.2.2 Proposed provision

It is proposed that the salary used for calculating a teacher's pension would be the higher of either:

1. The member's salary in the last 12 months before retirement, or
2. The average of the revalued best three consecutive years' salaries in the 10 years prior to retirement.

3.2.3 **How the proposals will affect members: -**

There will be far greater individual flexibility for both existing and new members in how they manage their transition to retirement. The proposals will support flexible working arrangements and will ensure that any reductions in salary up to 10 years before retirement will not have an adverse impact on the member's pension.

These arrangements will be available to all STSS members who have service in the scheme on or after the proposed implementation date of 1 April 2007 and would be used to calculate all benefits where the current "final salary" definition is used.

Out of service members who do not return to service will continue to have their benefits calculated under the current arrangements.

The existing stepping-down arrangements will become obsolete after the new arrangements are implemented and will be withdrawn at that time. There will, however, be a two year transition period until 31 March 2009 during which the new pensionable salary arrangements will work alongside the current average salary arrangements, with the teacher receiving benefits based on whichever calculation produces the higher pension.

3.2.4 **Case Studies:**

The following case studies illustrate how the proposal will affect a couple of people with different career patterns, comparing the proposed and current provisions.

a) A teacher has enjoyed a traditional career path. Their salary has increased year on year and their pension is based on their salary in the 12 months prior to retirement. Under this scenario the teacher will receive exactly the same level of benefits under the proposed arrangements as they would under the current arrangements.

b) A classroom teacher had an allowance (e.g. a distant islands allowance), which they lost a number of years before they retired. Under the current arrangements, the allowance would not count towards their pension, as it was paid more than 3 years prior to retirement. However, under the proposed arrangements, the teacher's pension would be based on the average of the highest three consecutive years. In this case, assuming the member had 35 years service, their pension would be based on 35/80ths of £42,654 (the revalued average of earnings in years 2, 3 and 4). Without this change in approach, their benefits would have been based on 35/80ths of £41,154. The teacher will, as a result of this change, receive an additional lump sum of £1,968 and additional annual pension of £656.

Illustrative patterns of pensionable earnings in case studies a and b:

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Current	Proposed
a	30,000	30,900	31,827	32,782	33,765	34,778	35,822	36,896	38,003	39,143	39,143	39,143
b	35,000	36,050	37,132	38,245	35,500	36,565	37,662	38,792	39,956	41,154	41,154	42,654

(assumes inflation at 2% and salary increase at 3%)

3.3 Buying Additional Pension Benefits

3.3.1 Proposed position

To encourage members to have greater control over their retirement options, these proposals will introduce more flexible and appropriate arrangements for buying additional pension benefit compared to the existing past and current added years (PAY/CAY) provisions. This will be achieved by enabling members, or their employers on their behalf, to buy additional annual pension of up to £5000. This represents a significant proportion of the average pension that is payable to those currently retiring from the STSS.

By contrast, the existing PAY provisions only allow individuals to cover earlier gaps in service. They do not allow individuals to forward plan by enhancing their pension benefits in anticipation of, for example, taking a later break in service or moving to part time working.

As well as the obvious benefits for members, this new flexibility will help employers manage their workforce and use the purchase of additional pension benefits as part of their recruitment, retention and motivation arrangements.

3.3.2 How the proposals will affect existing members and new entrants

- The proposed new arrangements for buying additional pension benefit will be introduced for both existing members and new entrants from 1 April 2007 and will replace the current PAY and CAY options;

- Existing PAY/CAY elections will be honoured;

- Members will be able to buy up to £5,000 additional annual pension at any time whilst in pensionable employment;

- Additional pension benefits can be bought in multiples of £250 units;

- The value of additional pension benefits would be index-linked before and after they come into payment. Further discussions are taking place on how that would be applied;

- Members will be able to buy additional pension benefits with a lump sum or by spreading the payments over a number of years (subject to this and other employee contributions in any year not exceeding annual earnings in that year). Whatever method is chosen, members should receive tax relief on their contributions;

- Members will have increased choice as they will be able to purchase personal benefits only or personal and dependants' benefits;

- Where additional pension benefits are bought by regular payments over a number of years the cost charged would be reviewed periodically;

- The costs of buying additional pension benefits by either a lump sum payment or by instalments are currently being assessed by the Government Actuary. It is hoped that these will be available during the consultation period so that they can be included in the information available on the website www.sppa.gov.uk along with some illustrative case studies.

3.4 Phased Retirement

3.4.1 **Need for change**

Giving teachers the opportunity to wind down towards retirement by gradually reducing the number of hours worked and/or the level of responsibility undertaken is a key aim of this proposal.

We recognise that the traditional approach to retirement, where an individual goes from being in full-time employment to being in full-time retirement over the space of a weekend, no longer meets the needs and expectations of many people and their employers.

More and more teachers are looking at ways in which they can have greater control over how, and the timescale in which, they move into final retirement. Access to STSS benefits is currently only possible if the member actually retires and then they have to take all main scheme pension benefits at the same time.

While there are some limited provisions in the existing STSS that support a more flexible approach, awareness of these is poor and the provisions are often thought to be too complex. Examples of existing arrangements are:

- The pension benefits of part-time teachers are calculated using the full-time equivalent salary;

- Stepping down arrangements which, subject to certain conditions, protect pension earned when a person's contributable salary is reduced. (These arrangements will be withdrawn on 31 March 2007);

- Actuarially reduced pensions are not abated by future earnings. This has enabled teachers to draw their pension benefits early, supplement their income by undertaking further teaching or lecturing often in a less demanding role or on a part-time or supply basis, and continue to build further pension benefits.

As part of the changes to the tax regime that governs occupational pension schemes from April 2006, scheme rules can be amended to allow members to draw some or all of their occupational pension benefits from the age of 55 without having to retire completely from that employment. This opportunity to build on existing flexibilities is one that we believe employers and members will support, as it should help to:

- Improve work life balance

- Improve the retention of experienced staff with valuable skills

- Extend working lives

3.4.2 Proposed position

Under the proposals a facility would be introduced into the STSS for phased retirement with pension drawdown for all members. This would be available to those who wish 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.

The detailed proposals are:

- 'Reduced capacity' will require a minimum reduction in pensionable income of 25% that would last for at least 12 months;
- Up to 100% of benefits (pension and lump sum) can be taken;
- Draw down of pension benefits can be on two separate occasions before final retirement;
- Benefits taken before NPA would be subject to actuarial reduction;
- No qualifying period will be needed in respect of further service;
- No abatement on pension drawdown where payments have been actuarially reduced. This means your pension payments will not be reduced even if the total of your pension and future earnings exceeds your previous earnings;
- Benefits from residual service, the part of the pension entitlement that has not been drawn down on early, can be taken later as a deferred payment or can be combined with future service; and
- Options for phased retirement offered to all members in service.

We would like your views on whether and how out of service members might be able to take some (rather than all) of their benefits on an actuarially reduced basis while leaving the rest to be drawn on at their NPA.

3.4.3 Case Study:

James joins the STSS at age 22 with a normal pension age of 60. He reduces his hours to half-time from age 56 and his annual salary drops from £46,008 to £23,004. He continues to work for another 4 years and accrues more service.

In 2007 at age 56 he will have accrued 34 years service and will take 50% as pension at this time. This will be subject to **actuarial reduction**.

Pension

£46,008 x 17/80 = £9,776.70 x 0.786 (ARB factor) = **£7,684** plus an ongoing salary of £23,004

and lump sum

£46,008 x 17/80 x 3 = £29,330.10 x 0.872 (ARB factor) = **£25,576**

He works for another 4 years and at age 60 retires completely. Final salary, assumed for calculation purposes, at age 60 is £24,411. The extra 4 years service (at half-time) is the equivalent of 2 years of full-time service and that service is combined with the residual service not previously drawn down.

On retirement at age 60 he draws the rest of his pension;

Pension
£24,411 x 2 = £48,822 x (17+2)/80 = **£11,595 pension** (no ARB)

and lump sum
£48,822 x 19/80 x 3 = **£34,786**

(Figures have been rounded to nearest pound.)

(The first part of the pension drawn in 2007 would increase in value each year in April in line with inflation).

3.5 Surviving Partner Benefits

3.5.1 Need for change

All parties recognise that the modernisation of the STSS should include making provision for scheme members to nominate formally dependant partners (opposite-sex and same-sex) to receive a survivor pension. It is proposed that this facility should be introduced from 1 April 2007 within the framework set out below.

3.5.2 Nomination criteria

The member must nominate his or her partner in a prescribed format and they must complete a joint declaration of partnership stating that;

The member and his or her partner are living together in an exclusive committed long-term relationship (i.e. a permanent relationship with just one person) that has existed for at least two years;

i) The member and his or her partner are legally free to marry or would have been able to if he or she and his or her partner had not been of the same sex (i.e. neither the member or the partner can be married to or be in a registered civil partnership with anyone else);

ii) Either the member's partner is financially dependent on the member or they are financially interdependent.

The partner would be asked to provide evidence that the above criteria continued to be met at the time of member's death. The type of evidence that would be required is set out below.

3.5.3 Financial dependency

In order to complete the financial dependency test, evidence would need to be provided at the point of the member's death. This could include: -

- Confirmation that they lived together in a shared household;
- Confirmation of shared household spending;
- Children of the member and/or partner being jointly brought up;
- Shared bank accounts or investments;
- A loan or mortgage in joint names;
- Wills naming each other as the main beneficiary;

- A mutual power of attorney;
- The partner being nominated as the main beneficiary of life insurance;
- The death of the member leading to substantive extra living expenses for the partner.

This list is not exhaustive and the evidence will not have to contain all the elements listed above.

3.5.4 How the proposals will affect existing members and new entrants

- Surviving partner benefits would be introduced for both existing members and new entrants from 1 April 2007;
- Pensionable employment undertaken on or after 1 April 2007 will count towards surviving partner benefit and, as with widower's and civil partner's pensions, there will be a two year qualifying period;
- A consequence of the introduction of benefits for surviving partners is that the existing provisions under which widow(er) pensions are stopped following re-marriage or co-habitation need to be reviewed. We, therefore, propose that for members who retire on or after 1 April 2007, dependants' (including widow(er)s') benefits will be payable for life i.e. not stopped on remarriage or co-habitation;
- The accrual rate for surviving partner benefits will be 1/160th, regardless of the accrual rate that applies to the member's own pension, for both existing and new entrants from 1 April 2007;
- Existing members will be able to buy in pre-1 April 2007 service for a surviving partner benefit at full cost.

3.6 Ill health retirement benefits

3.6.1 Need for change

Helping employees stay healthy at work and reducing the incidence of ill-health retirement is an aim shared by the Government, unions and employers.

The Treasury Review of Ill-Health Retirement in the Public Sector, published in July 2000 set out a range of recommendations to public sector schemes including recommending different levels of benefits for members depending on the severity of their condition and the likelihood of them being able to work again. This recommendation has been accepted by Treasury and SPPA and is reflected in the proposed reform of the STSS.

3.6.2 Proposed position

In order to ensure that the benefit structure better reflects the position of those most in need, a tiered approach with a higher level of benefits for total incapacity and a lower level of benefits for partial incapacity would be introduced from 1 April 2007, for both new entrants and existing scheme members.

Total Incapacity Benefit (TIB) would be granted to those members who would only be capable of work that would be greatly below the overall job weight of a teacher and Partial Incapacity Benefit (PIB) for those permanently incapable of teaching, but capable of a range of other types of work.

So while the requirement for permanent incapacity from teaching would remain, the severity of the medical condition and its impact on the future earnings capacity of the member would determine the scheme member's level of benefit when retiring on the grounds of ill health.

TIB would include a half prospective service enhancement to normal pension age. Under PIB there is no service enhancement, but the member would not be subject to the reduction normally applied to benefits because of early payment. Also the benefit will not be reviewed if the member becomes employed in any capacity outside teaching.

The existing appeals system would be extended to cover those appealing against the award of the lower level of benefit as well as those appealing against a rejection of their application for ill-health retirement.

People who are not in pensionable employment in the STSS but have a continuing contractual relationship with their employer through, for example, maternity and paternity leave, would be treated the same as if they were in pensionable employment in terms of eligibility for TIB or PIB.

Out of service scheme members will not be entitled to ill-health retirement benefits unless they develop a medical condition that would meet the TIB criteria. In these circumstances they will be awarded unreduced benefits based on their actual reckonable service, but with no enhancement.

In addition, out of service applicants will be treated as existing members if the application is made within 12 months of leaving pensionable employment and there is evidence that they left pensionable employment due to incapacity. The level of enhancement would depend on the person's NPA.

The working of the new arrangements will be jointly reviewed by union, employer, DfES, SPPA and DENI representatives during 2008.

3.6.3 Case Studies:

a) A 56 year old secondary school teacher is suffering from depression/anxiety. If the cause of the depression was specific to teaching and the teacher was fit to work in another occupation, a PIB would be appropriate. Only if the symptoms were so severe that the teacher would not be fit for any gainful employment, could a TIB be justified.

b) A 37 year old primary school teacher with 14 years service (who was a new entrant after 1 April 2007) has been diagnosed with generalised osteo-arthritis. Assuming the permanent incapacity for teaching criteria has been met and the level of debility is such that she would not be fit for any other form of gainful employment, TIB would be granted. In this case an enhancement of half prospective service to age 65 (14 years) would be awarded, (only 6 $^{2}/_{3}$ years enhancement would be granted under the current arrangements) meaning that her benefits would be based on 28 years service.

3.7 Possible Additional Flexibilities

3.7.1 Case for change

On 6 April 2006, the tax regime governing occupational pension schemes changed. However, there is no requirement on schemes to introduce any of these new flexibilities and it is a matter for the managers of each scheme to decide whether, and if so to what extent, new flexibilities should be introduced. The guiding principle is that flexibilities can be considered for introduction into public service schemes provided:-

a) they support a legitimate policy aim;

b) any costs are contained within the available cost envelope or met by an increase in the member contribution rate; and

c) they are part of a package of reforms that addresses the affordability and sustainability of the public service scheme.

Further discussion will take place during the consultation period to work through outstanding details in respect of all topics, but in particular those flexibilities arising from changes in HMRC legislation and the introduction of an additional pension purchase arrangement.

These issues include:

- whether the existing 15% limit on contributions to the STSS should be retained, lifted or removed;
- the proposed limit of £5,000 for purchasing additional pension;
- other operational aspects and consequences of introducing an additional pension purchase arrangement;
- the possibility that out of service members might also be entitled to take some of their benefits on an actuarially reduced basis while leaving the rest to be drawn on or before their NPA (at present, out of service members have to take all of their benefits at the same time);
- the retention or removal of the earnings cap that applies to those who joined the STSS after 31 May 1989 and whose pensionable earnings are restricted to £108,600;
- the retention or removal of the 40 and 45 year limits on pensionable service;
- the retention of or increase in the age 70 limit on STSS membership.

3.8 Premature retirement and severance arrangements

3.8.1 Case for change

As the existing severance arrangements for some STSS members are directly age and service related they need to be reviewed by 2 December 2006, in order to check compliance with age discrimination legislation that will come into effect on that date.

3.8.2 Proposed position

Severance provisions will be amended as necessary to ensure that they comply with the requirements of the age discrimination legislation.

Any changes will apply to both new entrants and existing members.

3.9 Winding down employment

Provision to be made for winding down employment for new entrants who have NPA 65.

3.10 CONTRIBUTION RATES

3.10.1 The effect of combining scheme reforms and improvements with retention of NPA 60 for existing members will require an increase of 0.2% in the contribution rate for all members. In addition, in order to secure the sustainability of the STSS

- the member contribution rate would increase by a further 0.2% as the members' share of the outcome of the 2005 STSS valuation taking it to 6.4%;

- the employer contribution rate will increase by 1.0% in April 2007 (following the 2001 valuation) taking it to 13.5% and it is estimated that it will increase again by a further 0.75% (dependant on the outcome of the 2005 valuation) in April 2008;

- at future actuarial valuations of the scheme, the employee contribution rate will be set to be equal to that applied at an equivalent valuation in England and Wales, subject to the valuation identifying significant differences in overall scheme costs in Scotland. This will ensure there is consistency across the UK for as long as the schemes remain broadly similar. Any small cost differences will be borne by the employer rate in Scotland. In effect, this means that the ceiling of 14% on the employer contribution rate and the equal division between members and employers of any cost changes resulting from future valuations in England and Wales, that would take effect from the implementation of the 2013 valuation onwards, will also apply in Scotland;

- the equal division of cost increases or savings and the ceiling on the employer contribution rate would be reviewed in the light of any changes in the total contribution rate that arise from factors other than demographic experience, for example overriding legislative requirements.

3.10.2 Taking the above into account, :

- The member contribution rate will rise from 6% to 6.4% with effect from 1 April 2007.

- The employer contribution rate will rise from 12.5% to 13.5% in April 2007 and to around 14.25% in April 2008.

4. How to Respond

You can download copies of the consultation document and questionnaire from our website by clicking on the following link: Scottish Public Pensions Agency - Pension Reforms - Scottish Teachers I regret it is not possible to respond on-line.

Please send your completed questionnaire either by post to:

Christine Marr
Teachers' Policy
Scottish Public Pensions Agency
7 Tweedside Park
Tweedbank
Galashiels
TD1 3TE

or by email to: Christine.marr@scotland.gsi.gov.uk

Additional copies of this consultation paper can be downloaded from the website www.sppa.gov.uk or can be obtained by writing to Teachers' Policy at the above address.

5. Plans for making results public

A summary of the responses to this consultation will be published on the SPPA website in January 2007.

6. Consultation Response Form

The closing date for this consultation is 5th January 2007.

Your comments must reach us by that date.

The information you provide in your response will be subject to the Freedom of Information Act 2000 and Environmental Information Regulations, which allow public access to information held by the Scottish Public Pensions Agency. This does not necessarily mean that your response can be made available to the public as there are exemptions relating to information provided in confidence and information to which the Data Protection Act 1998 applies. You may request confidentiality by ticking the box provided, but you should note that neither this, nor an automatically-generated email confidentiality statement, will necessarily exclude the public right of access.

Please tick if you want us to keep your response confidential. ☐

Name	
Organisation	
Address	

1. Timing – implementing the new arrangements (section 3.1)

Do you have any comments on this section?

Comments:

2. Salary used for calculating pension benefits (section 3.2)

Do you have any comments on this section?

Comments:

3. Buying additional pension benefits (section 3.3)

Do you have any comments on this section?

Comments:

4. Phased retirement (section 3.4)

Do you have any comments on this section?

Comments:

5. Surviving partner benefits (section 3.5)

Do you have any comments on this section?

Comments:

6. Ill-health retirement benefits (section 3.6)

Comments:

7. Possible additional flexibilities (section 3.7)

Do you have any comments on this section?

Comments:

8. Premature retirement and severance (section 3.8)

Do you have any comments on this section?

Comments:

9. Winding down (section 3.9)

Do you have any comments on this section?

Comments:

10. Contribution rates (section 3.10)

Do you have any comments on this section?

Comments:

11. We would welcome any further comments you may have.

Comments:

12. Please let us have your views on responding to this consultation

(eg the number and type of questions, was it easy to find, understand and complete etc?)

Comments:

Thank you for taking the time to let us have your views. We do not intend to acknowledge individual responses unless you place an 'X' in the box below.

Please acknowledge this reply ☐

As your views are valuable to us, would it be alright if we were to contact you again from time to time to send you consultation documents?

Yes ☐ No ☐

All UK national public consultations are required to conform to the following standards:

1. Consult widely throughout the process, allowing a minimum of 12 weeks for written consultation at least once during the development of the policy.

2. Be clear about what your proposals are, who may be affected, what questions are being asked and the timescale for responses.

3. Ensure that your consultation is clear, concise and widely accessible.

4. Give feedback regarding the responses received and how the consultation process influenced the policy.

5. Monitor your department's effectiveness at consultation, including through the use of a designated consultation co-ordinator.

6. Ensure your consultation follows better regulation best practice, including carrying out a Regulatory Impact Assessment if appropriate.

Further information on the Code of Practice can be accessed through the Cabinet Office Website:
http://www.cabinetoffice.gov.uk/regulation/consultation-guidance/content/introduction/index.asp

Thank you for taking time to respond to this consultation.

Completed questionnaires and other responses should be sent to Christine Marr at the address shown below by 5th January 2007.

Send by post to: Christine Marr, Teachers' Policy, Scottish Public Pensions Agency, 7 Tweedside Park, Tweedbank, Galashiels, TD1 3TE.

Send by email to: christine.marr@scotland.gsi.gov.uk