

## **SCOTTISH TEACHERS' SUPERANNUATION SCHEME (STSS)**

### **REPORT ON CONSULTATION ON PROPOSAL TO INCREASE EMPLOYEE CONTRIBUTION RATES AND SUMMARY OF RESPONSES**

#### **1. Purpose**

The purpose of this paper is provide stakeholders with a summary of the feedback received to the Scottish Government's recent consultation on increasing employee contributions to the STSS.

#### **2. Introduction**

2.1 The Scottish Public Pensions Agency, on behalf of the Scottish Government, conducted a public consultation inviting stakeholders to register their views on the Scottish Government's proposals for increasing employee pension contributions to the STSS for 2012-13, starting 1 April 2012. That consultation followed the Scottish Government's decision to apply these increases in Scotland following confirmation from the UK Government that failure to do so would result in deductions from the 2012-13 Scottish Government budget. The UK Government is seeking to raise contributions by 3.2% average pay by April 2014.

2.2 The Scottish Government's consultation began on 7 October 2011 and closed on 17 November 2011 and covered increases for 2012-13 only. A short consultation period was necessary because of the UK Government's insistence on the need to bring in the contribution rises by 1 April 2012. This report summarises the 69 responses received by the SPPA to that consultation.

2.3. A copy of the consultation documents can be accessed on the SPPA website at [STSS Consultations](#).

#### **3. Consultation process**

3.1 The Scottish Government's consultation document was issued by email to STSS stakeholders on 7 October 2011. The document was also posted on the SPPA's website. The consultation document set out the Scottish Government's suggested distribution of contribution rate increases (see Tables 1 and 2 below). The tiers in Table 1 were based on those rates proposed by the Department for Education in its consultation issued on 28 July 2011 for teachers in England and Wales. The tiers in Table 2 recognised the fact that unlike the other unfunded schemes in the UK, the STSS does not share UK wide pay scales and reflected SNCT pay scales in tiers 2 and 3.

3.2 The proposals were that:

- Those earning less than £15,000 (full-time equivalent rate) will pay nothing extra;
- Those earning between £15,000 and £25,999 (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%

<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%

3.3 Further consultation will take place on draft regulations.

#### 4. Analysis of Responses

The consultation posed 9 questions around these proposals. Although only 69 responses were received, 9 were from teachers' unions (representing 13% of total responses), which represents a wide coverage of member representation. The main comments are summarised in the tables at Annex A.

The breakdown of respondents is as follows:

<b>Respondents</b>	<b>Permission to publish response given</b>
<b>Individual responses (40)</b>	Varying
<b>Teachers' unions (9)</b>	
Educational Institute of Scotland (EIS)	Did not specify
Scottish Secondary Teachers Association (SSTA)	Did not specify
National Association of School Teachers and Women Teachers (NASUWT)	Yes
VOICE the Union	Yes
Association of Head Teachers and Deputes in Scotland (AHDS)	Yes
Association of Teachers and Lecturers (ATL Scotland)	Yes
School Leaders' Scotland (SLS)	Yes
Scottish Primary Teachers' Association	Yes
University and Colleges Union (UCU)	Yes
<b>Employers (20)</b>	
COSLA	Did not specify
UCEA	Yes
Local authorities <ul style="list-style-type: none"> <li>• Shetland Islands Council</li> <li>• East Lothian Council</li> <li>• The Moray Council</li> <li>• Falkirk Council</li> <li>• West Lothian Council</li> <li>• City of Edinburgh Council</li> <li>• Western Isles Council</li> <li>• North Lanarkshire Council</li> <li>• Perth and Kinross Council</li> <li>• Fife Council</li> </ul>	Yes No No Did not specify Yes Did not specify Did not specify Yes Did not specify Yes
Scotland's Colleges <ul style="list-style-type: none"> <li>• Edinburgh's Telford College</li> <li>• Perth College UHI</li> <li>• Ayr College</li> <li>• City of Glasgow College</li> <li>• West Lothian College</li> </ul>	Did not specify No Yes No Yes
Independent schools <ul style="list-style-type: none"> <li>• Erskine Stewart's Melville Schools</li> <li>• George Watson's College</li> </ul>	Yes No
Other <ul style="list-style-type: none"> <li>• Workers Educational Association</li> </ul>	Yes
<b>Scheme membership as at 31/3/2010</b>	<b>78,452</b>

## **5. Key Messages**

- Respondents were opposed to any increase in employee pension contributions, particularly in the absence of a scheme valuation
- Respondents considered the imposed rise in contributions was a “cash grab” by the UK Government and that the figure of £2.8 billion in savings had been “plucked out of the air”.
- Respondents were also very concerned that the increases will lead to a large number of teachers opting out.
- Respondents were also concerned about increasing employee contributions during a pay freeze

## **6. Next Steps**

Having considered each of the consultation replies it has been decided to proceed with the rates that are being introduced into the scheme in England and Wales. A further consultation on the draft regulations reflecting this approach was issued on 22 December.

**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?

	Responses
Adopt	8 (12%)
Adjust	22 (32%)*
No view either way	2 (3%)
Respondents who did not answer this question	37 (53%)
Main comments made:	
<ul style="list-style-type: none"> <li>• If we decide to adopt the England and Wales proposals then we will have to justify why not</li> <li>• Adjust them to reflect circumstances in Scotland but ensure that they are no more than the contributions in England and Wales</li> <li>• Contributions should be the same as England and Wales to maintain consistency where teachers transfer between the Scottish and English teachers' schemes</li> <li>• Adopt the same outcome as England and Wales to ensure equity</li> <li>• Do not agree that contributions should be increased, particularly during a pay freeze</li> <li>• Should not increase contributions in the absence of a scheme valuation</li> <li>• Contributions should be aligned with LGPS</li> <li>• No reference to salary banding for Chartered Teachers</li> </ul> <p>*Although more respondents were in favour of adjusting the tiers to reflect Scottish salary scales, no proposals were put forward. If the tiers in Table 2 are adopted, 900 members would pay a lower rate, but 1,950 members would pay a higher rate than counterparts in England and Wales to compensate.</p>	

**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?

	Responses
Respondents who answered this question	31 (45%)
Respondents who did not answer this question	38 (55%)
Main comments made:	
<ul style="list-style-type: none"> <li>• Not clear how Scotland specific adjustments be made while ensuring that no-one in Scotland pays more than their counterparts in England and Wales</li> <li>• If there has to be overall increase, it should be applied equally to all members of the scheme</li> <li>• Should be the same or lowest increase for all</li> <li>• Teachers at the top of the standard scale in England will pay a lower level of contribution than their counterpart in Scotland</li> </ul>	

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

- protecting the low paid;

	Responses
Yes	15 (22%)
No	13 (19%)
Respondents who did not answer this question	41 (59%)
Main comments made:	
<ul style="list-style-type: none"> <li>• no teachers fall within the 'up to £14,999' category</li> <li>• discourages teachers from applying for promotion</li> <li>• hits middle income earners hardest</li> <li>• very small number of 'low paid' workers in the teaching profession</li> <li>• tiered contributions will make it more difficult to recruit teachers into promoted posts</li> </ul>	

- minimising potential opt out from the scheme; and

	Responses
Yes	14 (20%)
No	14 (20%)
Respondents who did not answer this question	41 (60%)
Main comments made:	
<ul style="list-style-type: none"> <li>• number of opt-outs would increase</li> <li>• Opt out has been underestimated and is likely to be higher, as happened when LGPS introduced tiered contributions</li> <li>• Opt out risks destabilising the scheme</li> <li>• Opt out will be low as people tend to stay in sector for entire career</li> </ul>	

- ensuring that they are set progressively, so that higher earners pay proportionately more?

	Responses
Yes	13 (19%)
No	9 (13%)
Respondents who did not answer this question	47 (68%)
Main comments made:	
<ul style="list-style-type: none"> <li>• oppose introduction of tiered contributions</li> <li>• Seems sensible and fair</li> <li>• Teachers on point 5 of the pay scale (£32,394) face a disproportionate rise</li> <li>• Tiers not as wide-ranging as LGPS and not as progressive</li> <li>• CARE negates the need for tiered contributions</li> <li>• Tiers change more at the bottom of the scale but not much from £40k onwards</li> <li>• Flat rate increase for all but the lowest earners would be more appropriate</li> </ul>	

**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?

	Responses
Yes	30 (43%)
No	9 (13%)
Respondents who did not answer this question	30 (44%)
Main comments made:	
<ul style="list-style-type: none"> <li>• Part-timers if contributions based on FTE</li> <li>• Higher earners – hit twice with tax rate and higher contributions</li> <li>• Lower earners as already struggling</li> <li>• Men as they tend to be on higher salaries</li> <li>• Older people as they tend to be on higher salaries</li> <li>• Sole earners in a household</li> <li>• Commuters as fuel bills high</li> <li>• Middle earners with young families</li> <li>• Supply teachers as based on FTE salary</li> </ul>	

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

	Responses
Respondents who made a suggestion	59 (86%)
Respondents who did not answer this question	10 (14%)
Main comments made:	
<ul style="list-style-type: none"> <li>• Employer contribution should increase too</li> <li>• Pay freeze</li> <li>• Goalposts being moved</li> <li>• Would consider industrial action</li> <li>• May lead to recruitment issues, especially in already hard to recruit subjects e.g. Physics</li> <li>• Agree increases needed but not in current economic climate</li> <li>• Pensions should be devolved</li> <li>• Government using pension scheme for short-term cashflow</li> <li>• Paying more for less pension</li> <li>• Working longer for less pension/ retirement age increasing</li> <li>• Breach of trust</li> <li>• Little attempt has been made to raise funds elsewhere without penalising public sector workers/ SG should take penalty and raise the funds elsewhere instead of implementing pension changes</li> <li>• Already facing changes and increased workload with Curriculum for Excellence</li> <li>• Costs beyond 2013 unknown, need to look at all reforms as a package</li> <li>• People with families with dependants should be exempt</li> <li>• Changes should be for new entrants only</li> <li>• Variable hours lecturers who work different hours each week should have their FTE salary for that month set from the hourly rate</li> </ul>	

- Bandings need to be increased periodically otherwise people will drift into higher bands
- Increased workload for local authorities and annual returns will be more difficult to complete
- Should be parity with LGPS or teachers will be paying more than them
- Scheme was recently reviewed
- Should be consistency across the public sector
- CARE will hit earners twice
- Adverse affect on recruitment
- Disadvantage higher earners

**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?

#### 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 x 12 = £30,000) to calculate the contribution rate, which in this case would be 7.3%.

	Responses
Option 1	13 (19%)
Option 2	13 (19%)
Alternative	15 (22%)
Respondents who did not answer this question	28 (40%)
Main comments made	
<ul style="list-style-type: none"> <li>• Should be twice a year at 1 April and 1 October</li> <li>• Mixture of the 2 suggestions – set based on salaries at 31 August</li> <li>• Should be at the start of the tax year</li> <li>• Option 2 fairer but makes the HR admin more complex</li> <li>• Contributions should be linked to monthly salary</li> <li>• Does help balance equality but not fair</li> <li>• No mention given to part time or full time staff who do additional hours</li> <li>• Look at McCormac review regarding flexibility of working week to save money instead</li> <li>•</li> </ul>	

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

	Responses
Yes	18 (26%)
No	16 (23%)
Respondents who did not answer this question	35 (51%)
Main comments made	
<ul style="list-style-type: none"> <li>• More than 7 tiers needed so tiers change proportionately with increase in salary</li> <li>• 7 tiers too many</li> <li>• Should be no more than 4 tiers</li> <li>• Administration burden disproportionate to the benefit to the individual</li> <li>• Should be a flat rate instead to achieve 100% by April 2014</li> <li>• Bureaucratic processes should be minimised</li> <li>• Need as much notice as possible of changes to get systems ready as can't discuss with suppliers until changes known</li> <li>• Regulations should allow employers to choose how best to notify employees of their new contribution rate</li> <li>• Would mean Principal Teachers, Deputy Head teachers and Head teachers will all be paying the same</li> <li>• Payroll changes may not be achieved by 2012</li> <li>• Should be parity across the public sector</li> <li>• Bandings not equally spaced for breadth of band or membership in each</li> <li>• Confident payroll systems will be ready for 2012</li> <li>• Should be a fully tiered system as per LGPS</li> <li>• Recognise the administrative complexities involved, but believes</li> </ul>	

developments in technology should be able to provide a solution
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**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?

	Responses
Yes	23 (33%)
No	8 (12%)
Respondents who did not answer this question	38 (55%)
Main comments made	
<ul style="list-style-type: none"> <li>• A salary change of £1000 or more would warrant a review</li> <li>• A salary change of £2000 or more would warrant a review</li> <li>• A salary change of £5000 or more would warrant a review</li> <li>• Contribution rate should be reviewed at least once a year</li> <li>• Wouldn't be fair if the contribution rate was effective for a year beginning in a new tax year and they changed working conditions in June so would be paying higher rate for 9 months</li> <li>• When salary changes</li> <li>• Review once a year on 31 March</li> <li>• Only for significant changes – 10% or a grade change</li> <li>• Only if increase takes them into a higher or lower tier</li> <li>• If significant changes in salary on a national level would be necessary to change tier structure</li> <li>• Individual should notify pension authority of any changes as payroll systems can't pick up changes automatically.</li> <li>• Would make returns to SPPA unmanageable</li> <li>• Administratively easier to track monthly contributions based on monthly salary</li> <li>• Will the bandings be adjusted to take account of movements in actual wage, earnings or prices? This should be made clear</li> <li>• Don't agree contribution rate should be set for the year even if salary changes</li> <li>• Guidance similar to the LGPS statutory guidance would be welcome</li> <li>• 2 reviews per year</li> <li>• Minimum threshold should be 5%</li> <li>• Minimum threshold should be 10%</li> <li>• Recognise the administrative complexities involved, but believes developments in technology should be able to provide a solution</li> </ul>	

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

	Responses
Yes	20 (29%)
No	4 (6%)
Respondents who did not answer this question	45 (65%)
Main comments made	
<ul style="list-style-type: none"> <li>• Supply teachers on short contracts of 5 days or less at point 1 or 0 of the scale shouldn't be able to contribute</li> <li>• If full time, yes, if not on a proper full time wage then no</li> <li>• Separate rates for each separate roles</li> <li>• Should all be a flat rate</li> <li>• Position of those who hold a permanent post but are a supply teacher needs clarified</li> <li>• New staff, yes, multiple employment, not sure</li> <li>• As per LGPS scheme</li> <li>• Multiple employment not clear whether proposals will be neutral compared to staff with just one employer</li> <li>• New staff rate should be applicable to existing employees earning same FTE salary</li> <li>• Possible for member to pay contributions at higher band for part of work but have salary averaged and not gain any benefit</li> </ul>	