

SCOTTISH PUBLIC PENSIONS AGENCY

REVIEW

OF THE

**SCOTTISH TEACHERS'
SUPERANNUATION SCHEME**

A

CONSULTATION

PAPER

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REVIEW OF THE SCOTTISH TEACHERS' SUPERANNUATION SCHEME (STSS): CONSULTATION ON POSSIBLE SCHEME CHANGES

1. EXECUTIVE SUMMARY

This consultation seeks views on possible options for changes to the Scottish Teachers' Superannuation Scheme (STSS)* with details of some associated costs. The document is structured under the following headings:-

- Possible scheme changes and associated costs (Section 3);
- Pension changes and Human Resource implications (Section 4);
- New approaches to flexible retirement (Section 5);
- Ill health retirement benefits (Section 6);
- Transitional arrangements (Section 7);
- Premature retirement and severance arrangements (Section 8);
- Buying additional pension benefits (Sections 9); and
- Consultation response form.

(*This consultation mirrors the consultation taking place in England and Wales. A separate consultation exercise will also take place in relation to the Teachers' Pension Scheme in Northern Ireland.)

2. INTRODUCTION

2.1 In Superannuation (Teachers') Circular No. 2004/4 we said that we would provide further information about some possible revised scheme designs and seek the views of members, employers and other interested parties on a range of issues relating to a modernised STSS.

2.2 In this consultation document, we shall be seeking views and comments on a number of areas of potential change to the present scheme. We are looking at what improvements could be made to the STSS and how these could be paid for. The UK Government has agreed that some of the savings that will result from the increase in pension age can be used to fund improvements in the STSS. This will allow for some scheme improvements to be introduced without any increase in the 6% contribution paid by members (on which tax relief is granted). A number of areas of potential improvement have been identified by the Teachers' Pensions Review Group¹. These are included in the following section on possible scheme changes. It will not be possible to introduce **all** of these improvements without an increase in the contribution paid by STSS members, so we are using this consultation to seek views on what improvements STSS members would value most and whether – and if so to what extent – they would be willing to pay more for a higher level of pension benefit.

2.3 In considering what improvements should be made to the STSS, the introduction of unmarried partner benefits is recognised as a priority by all parties. The cost of introducing unmarried partner benefits alongside the package of changes that include a pension age of 65 has been assessed at 0.25% of salary by the Government Actuary. This cost includes provision for widows', widowers' and partners' benefits to be payable for life regardless of whether the beneficiary remarries or enters into a subsequent partnership.

¹ See www.scotland.gov.uk/sppa

3. POSSIBLE SCHEME CHANGES AND ASSOCIATED COSTS

3.1 Members of the STSS pay 6% of salary towards a package of benefits. The employer currently pays a further 12.5% of salary towards the cost of membership of the STSS, making a total standard contribution rate (SCR) of 18.5% of salary. If the member's salary is £30,000 a year they pay £1,800 a year towards their pension benefits on which they receive tax relief. This reduces the actual contribution to around £1,400 a year. In addition, the employer would pay £3,750 towards the member's pension benefits in the STSS.

3.2 Under the existing scheme, members receive a pension based on $\frac{1}{80}$ th of their salary for each year of service plus a tax-free lump sum of 3 times the pension. We are looking at how we could improve the basis on which retirement benefits are calculated. This could be perhaps a pension calculated at the rate of $\frac{1}{60}$ th of salary for each year of service, with the option for members to decide how much of that pension they would want to give up in exchange for a tax free lump sum. That lump sum could be higher than is available under the present scheme. Whether the final fraction will be $\frac{1}{60}$ th will depend on the extent of other improvements, but the new basis should give a more generous pension for each year of service than the existing $\frac{1}{80}$ th basis. In the illustrative modelling routine available at www.teachernet.gov.uk/pensions, it has been assumed that benefits would be based on $\frac{1}{60}$ th of salary, with £1 of pension surrendered for every £12 of lump sum taken.

3.3 The following tables summarise possible options for changes that could be made to the STSS with the corresponding current provision set alongside for ease of comparison. The approximate increase in the standard contribution rate (SCR) associated with some benefit improvements is provided to illustrate costs assumed for some of the proposals. It will not be possible to provide exact figures until the Government Actuary has completed his actuarial report for the quinquennium ending 31 March 2001.

	CURRENT PROVISION	POSSIBLE OPTION FOR CHANGE	INCREASE IN SCR (%)
1	Pension based on $\frac{1}{80}$ th of salary with lump sum fixed at 3 times pension.	Pension based on $\frac{1}{60}$ th of salary with flexible option to take up to 25% of "fund value" after commutation as tax-free cash by surrendering £1 of pension for £12 of lump sum.	0.8
2	Dependants' benefits payable only in respect of spouses.	Dependants' benefits payable to unmarried, including same sex, partners based on $\frac{1}{160}$ th accrual rate.	0.25
3	Entitlement to widows' pension ceases on re-marriage or co-habitation.	Spouses' pensions paid for life.	Cost included in 2 above
4	Dependants' pension based on $\frac{1}{160}$ th accrual rate.	Dependants' pension (including unmarried and same sex partners) based on $\frac{1}{120}$ th accrual rate.	0.45
5	Death gratuity of 2 times pensionable salary payable.	Increase in the death gratuity to 3 times pensionable salary.	0.10
6	Children's pensions at $\frac{1}{160}$ th payable for those under age 17 and those over that age still in full time education.	Increase in children's pensions' accrual rate to $\frac{1}{120}$ th.	Less than 0.05

Other possible options for scheme changes:-

	CURRENT PROVISION	POSSIBLE OPTION FOR CHANGE
7	Premature retirement is only available where the employer meets the full cost of the difference between unreduced and actuarially reduced benefits.	More flexibility in the premature retirement and severance arrangements that would enable employers to determine how much to enhance the level of actuarially reduced benefits payable from the STSS.
8	Pension benefits only payable on retirement.	Ability to take some or all of pension benefits while continuing in work in a reduced or part-time capacity.
9	Additional contributions limited to 9% of salary.	Consider new flexibilities and options over the way that STSS members buy additional benefits.
10	Abatement applies to pensions paid on both premature retirement and age grounds.	Pensions abated on a return to work only where unreduced or enhanced benefits have been granted following premature retirement.
11	Same level of ill-health benefits payable regardless of potential earnings capacity.	Ill-health retirement benefits that take account of the capacity of the individual to undertake other employment with a higher level of benefit payable to those unfit to undertake any further employment.
12	Many STSS members are unable to contribute to personal pension schemes	Increasing the scope for pension saving alongside STSS membership.

3.4 We shall also be looking at the way in which new pension flexibilities, particularly those relating to the transition from work to retirement, require a different approach to the pensionable salary that is used in pension calculations. It is already clear that taking the best year in the last 3 years before retirement does not always produce the most beneficial result for the individual. We shall, therefore, be exploring with Review Group members alternative approaches that better reflect a more flexible approach to winding down and retirement where an individual's highest salary may be earlier than 3 years before retirement.

3.5 We would welcome comments from STSS members on:-

- What members value most about the scheme
- What improvements would members value most from the options for possible change

- Whether STSS members would be prepared to pay more than the current 6% contribution for improved benefits and if so, how much more would members be willing to pay for improved:-
 - personal benefits; and/or
 - family benefits.

3.6 By way of illustration, one possible package associated with a pension age of 65 that could be provided without an increase in the 6% contribution paid by STSS members could include:-

- pension based on $\frac{1}{60}$ th of salary with a flexible option to take tax free cash by surrendering £1 of pension for every £12 lump sum;
- dependants' benefits payable to unmarried (including same sex) partners based on an accrual rate of $\frac{1}{160}$ th of pensionable salary for each qualifying year;
- spouses' and partners' pensions payable for life;
- flexible retirement arrangements;
- ill health retirement benefits that reflect the potential earnings capacity of the individual.

3.7 Other improvements, such as the increase in death gratuity to 3 times pensionable salary or improvements in the accrual rate for dependants' and childrens' pensions could still be provided, but would require some increase in the contribution rate paid by STSS members. There are a number of permutations of what could be included in the package that is containable within the 6% contribution paid by STSS members. That is why we want to find out what aspects of the scheme are valued most by the membership and whether they would be willing to pay more than 6% in return for a higher level of benefits.

3.8 We have already guaranteed that for existing STSS members pension benefits earned before 31 August 2013 will not be affected by the changes. However, we do recognise that existing members may wish to take advantage of the new arrangements in advance of 2013 and the section on Transitional Arrangements seeks views on this possibility.

4. PENSION CHANGES AND HUMAN RESOURCE IMPLICATIONS

4.1 Increasing life expectancy brings challenges that go beyond the cost pressures that arise in pension provision. The increase to 65 in normal pension age in the STSS and other public service schemes will, of course, help to control pension costs. It is, however, also a reflection of the fact that as individuals are living longer more needs to be done to enable them to extend their working lives in ways that provide more choice and flexibility than is available under current arrangements. The “cliff edge” between work and retirement is becoming increasingly less appropriate and we are seeing growing numbers of STSS members who are choosing to draw their pension before the age of 60 and then return to teaching in a less demanding or part time capacity. New flexibilities that will become available to occupational schemes from 2006 will provide the opportunity for provisions of the STSS to be improved as part of the wider package of changes so that STSS members have even greater options than are currently available over the way in which they manage the transition from work to retirement.

4.2 Some members of staff in schools, colleges and universities will be covered by the Local Government Pension Scheme (LGPS) rather than the STSS. The LGPS is also being reviewed and the Office of the Deputy Prime Minister will shortly be publishing its own proposals for that scheme.

4.3 What flexibilities already exist in the STSS?

4.3.1 The STSS supports members to manage the end of their careers in a number of ways. Members who move from full time to part time working have their pension benefits calculated using their full time equivalent salary. For example, a teacher working full time and earning £30,000 a year who decides to work half time for the 2 years leading up to retirement would still have pension benefits based on £30,000 (plus whatever increases that have been awarded in the intervening 2 years), although they would have earned one year of pensionable service during that two year period as a result of working half time.

4.3.2 There are also arrangements that allow STSS members with the support of their employers to “step down” from a post of responsibility during the years leading up to retirement and protect their pension benefits from the consequences of the reduction in salary that is associated with “stepping down”. This facility is used regularly by STSS members and has provided a valuable option to those who wish to continue in teaching but no longer want to undertake the more demanding duties associated with their previous post.

4.3.3 The introduction in 2002 of the facility whereby members aged 55 and over could access actuarially reduced pension benefits has seen increasing numbers of STSS members using this facility as a way of having greater control over the amount of work they do in the years leading up to eventual retirement. Actuarially reduced benefits are not affected by future earnings as a teacher or lecturer. This has allowed

individuals the option of drawing their pension benefits early and supplementing their income by undertaking further teaching or lecturing whilst continuing to build further pension benefits, often in a less demanding role or on a part time or supply basis.

4.3.4 The winding down scheme was also introduced in 2002. This scheme is a phased retirement option which offers those members approaching retirement age the opportunity to continue in employment on a part-time basis whilst protecting their overall final retirement pension entitlement. Each year served under the part-time contract counts as one full year for pension benefit calculation purposes. The final pensionable salary, for benefit calculation purposes, will be the salary that the member received in the 365 days prior to entering winding down employment re-valued, using the Retail Price Index, to the actual point of retirement.

4.4 What new flexibilities could be introduced into the STSS?

4.4.1 We are looking at new flexibilities that will enable STSS members to have more options in the way that they are able to save towards retirement; more choice about the mix of pension and lump sum that they take at retirement; and the option of drawing some of their pension benefits from age 55 without retiring, but continuing to work in a reduced capacity. Particular flexibilities that are being considered include:-

- Increased flexibility around additional investment levels in pension, either in STSS or in supplementary arrangements;
- Increased flexibility to manage how and when to retire and to manage working patterns towards the end of a career to improve work life balance;
- Potential for those who choose to work beyond normal retirement age to receive enhanced pension benefits;
- Increased choice in the proportion of pension benefits taken in pension form and as a lump sum.

4.4.2 Furthermore, the proposed changes to the STSS would provide the capacity for individuals pursuing more contemporary career patterns (eg pursuing more than one career within a working life, taking career breaks or otherwise seeking improved work life balance) to do so and still build greater pension benefits in the STSS in ways that are more flexible than under the existing arrangements.

4.5 How can these pension changes contribute to effective workforce management?

The more attractive and flexible the STSS is as a benefit to the membership, the greater the contribution it makes to recruitment and retention. Employers also benefit from the availability of a good quality and flexible pension scheme that can be an effective tool in the management of the workforce. The capacity for employers to use STSS provisions to:

- encourage teachers and lecturers to remain in shortage subjects or other hard to fill posts;
- offer more flexible working patterns that would not adversely affect eventual pension benefits;
- allow scheme members to make more choices about their career and working patterns

facilitates an increased range of career management options and possibilities for further incentives for individuals. This enhances the ability to maintain and improve motivation and performance resulting in positive impacts on efficiency, capability and ill health. More generally, the additional flexibilities proposed may support employers when deciding how best to deploy their most valuable resource – their staff.

4.6 What other implications do these potential changes raise for human resources management in schools, colleges and universities?

In order to maximise the value of these changes employers will need to focus on:

- creating the environment in which individuals are able to make best use of the additional flexibilities to vary the length of their teaching career
- the capacity for changing responsibility levels and working patterns at different stages of a teacher's career;
- improving levels of information and support to enable STSS members to undertake and integrate career, work pattern and pension planning in order to make best use of increased flexibilities in pension arrangements; and
- developing the extent to which current 'stepping down' and winding down scheme arrangements and potential new flexibilities (to work part time and take partial pension) are taken up. This will include opportunities to match higher level skills e.g. on implementing improvement plans, managing transitions, collaborative working etc with appropriate people,

as well as addressing cultural and other barriers to such career changes. Employers will need to consider how “stepping down” and “winding down” can become much more of a natural choice for the employee towards the end of their career.

4.7 What are the key Human Resource issues for employers?

4.7.1 It will not be possible for the full benefits of the proposed changes to the STSS to be realised unless new pension flexibilities are matched with corresponding flexibilities in the choices of working patterns available to STSS members. There will need to be adequate HR management capacity to meet the needs of a workforce that is shaped to maximise the capacity of the institution to meet its objectives. Individual members of staff have different needs in relation to development and progression opportunities, their approach to work life balance and the need for flexibility. The more a school, college or university is able to achieve a match between its needs and the needs of the individual, the more effective the institution will be in meeting its objectives.

4.7.2 Those responsible for HR issues in institutions will need to consider how their existing HR arrangements could be adapted to optimise the match between HR systems and pension flexibilities. Concerns have been expressed in some quarters that encouraging STSS members to extend their working lives will result in an older workforce that is more susceptible to sickness absence and ill health retirement. The “extending working lives” agenda is not, of course, confined to teachers and lecturers. It is an initiative aimed at all occupations whether in the public or private sector. It also needs to be recognised that the increases in life expectancy have also seen improvements in the health and well being of the population as a whole, including those who would be part of an older workforce and that flexible approaches to working patterns would enable individuals to have greater control over the nature and extent of the work they undertake in ways that best suit their particular circumstances.

4.7.3 We do recognise, however, that not all individuals who would want to extend their working lives would wish or be able to do so in the same capacity. This is where pension and HR flexibilities that support differing working patterns will enable individuals and employers to work together to identify the most suitable arrangements that match the wishes and expectations of the individual with the needs of the institution.

4.7.4 We would welcome comments from STSS members, employers and other stakeholders on:-

- how valuable they see increased pension flexibilities in support of recruitment and retention;

- the extent to which the option to draw some pension benefits while remaining in work in a reduced capacity would encourage individuals to extend their working lives;
- what more can be done to promote winding down to retirement as a natural event that does not carry with it any suggestion of “not being up to the job”; and
- the implications for HR management in schools, colleges and universities of taking full advantage of increased flexibility in the way in which individuals are supported in managing the transition from work to retirement.

5. NEW APPROACHES TO FLEXIBLE RETIREMENT

5.1 It is becoming increasingly clear that the traditional approach to retirement where an individual moves from being in full time employment to being in full time retirement over the space of a weekend no longer meets modern needs and expectations of many individuals and their employers. More and more individuals, including teachers and lecturers, are looking at ways in which they can have greater control of the manner and timescale over which they move into final retirement. Too often, however, the inflexibilities of pension scheme provision get in the way of how individuals manage the transition to retirement in the way that best suits their personal circumstances. Access to occupational pension scheme benefits is currently only possible if the member actually retires; and then **all** main scheme pension benefits have to be taken at the same time.

5.2 Many individuals would prefer to wind down towards retirement by gradually reducing the number of hours worked and/or the level of responsibility undertaken. The Winding Down Scheme, which is exclusive to the STSS, is one arrangement that supports this approach, however, the period during which a member can participate in the Winding Down Scheme is restricted to 4 years. Another facility available to members is “stepping down”, but this is constrained by current Inland Revenue restrictions. Those that do go down this route have to guard against the adverse impact on eventual pension benefits arising from taking a reduction in salary in the years leading up to retirement. The UK Government has recognised this as a real issue both for members of occupational pension schemes and their employers. It is also a barrier to the UK Government’s agenda of encouraging individuals to extend their working lives. Whilst increasing life expectancy does mean that individuals are better able than ever before to remain in employment for longer, it is equally the case that many individuals will be looking for much greater flexibility in the working patterns available to them as they approach final retirement.

5.3 As part of its package of reforms of the taxation regime that governs occupational pension schemes, the UK Government proposes to allow members of occupational pension schemes to draw some or all of their occupational pension benefits from the age of 55 without the requirement that the individual has retired completely from that employment. This facility would be available to those who wish to continue in work in a reduced capacity (by moving to part time working or relinquishing some responsibilities, for example), but would want to supplement their reduced income by drawing some of their occupational pension benefits. We believe this is a facility that STSS members would value as part of the package of changes that is associated with a higher pension age of 65. We are already aware that significant numbers of members who choose to retire with actuarially reduced benefits do return to teaching in a less demanding, part-time or supply capacity. We would welcome the views of consultees on the ways in which this flexibility would enable both members and employers to adopt more modern approaches to retirement.

6. ILL HEALTH RETIREMENT BENEFITS

6.1 Current arrangements

6.1.1 Ill health retirement benefits are paid to those who have not reached the scheme's normal pension age (currently 60) and are incapacitated.

6.1.2 The Teachers' Superannuation (Scotland) Regulations 1992 (as amended) provide that "a person is incapacitated, in the case of a teacher, while in the opinion of the Scottish Ministers the teacher is incapable by reason of infirmity of mind or body of serving efficiently as such, and despite appropriate medical treatment is likely permanently to be so". Applications from members who are still in pensionable employment, on paid or unpaid sick leave, or no longer employed are all considered under the present arrangements.

6.1.3 Benefits paid on ill health retirement are calculated in the same way as normal age retirement benefits, but the regulations provide for the enhancement of those benefits if the person satisfies certain criteria. The criteria are:-

- Where service ends after 30 September 2001, the member must have completed at least two years of qualifying service (usually pensionable employment, although certain other types of service may be counted); and
- the application for ill health retirement benefits must be made within 12 months of leaving pensionable employment.

6.1.4 The amount of enhancement paid depends on the amount of relevant service the member has to their credit (relevant service is the total reckonable service less any past added years that may have been bought):

<u>If the relevant service is: -</u>	<u>The amount of service used to calculate benefits will be:-</u>
Up to 9 years 364 days	double the relevant service (but not more than if the person taught to age 65)
10 years to 13years 122 days	20 years (but not more than if the person taught to age 65)
More than 13 years 122 days	whichever is the greater of: 20 years (but not more than if taught to age 65) or relevant service plus 6 years 243 days (but not more than if the person taught to age 60).

6.1.5 This benefit structure takes no account of any future earnings capacity of the retiree and offers a fixed maximum enhancement once members have achieved more than 13 years 122 days service. There is no distinction in the level of benefits awarded between those whose medical condition would prevent them from undertaking further teaching but not from undertaking other forms of employment, and those whose medical condition would prevent any further employment in any capacity. The amount of enhancement awarded under the current arrangements is governed not by the severity of the medical condition but principally by how many years the individual has to their credit in the STSS.

OPTIONS FOR CHANGE

6.2 During earlier consideration of ill health retirement issues, there was general recognition that the existing structure of ill health retirement benefits is too rigid, particularly in the way that benefits do not reflect the future earnings capacity of retirees. Many recognise the merits of a system where those who are likely to be unfit for any gainful employment would receive a higher rate of benefits than those who could work outside of teaching. This was also the view expressed in the Treasury Review of Ill health Retirement in the Public Sector, published in July 2000, which recommended different levels of benefits for members depending on the severity of their condition and the likelihood of the member being able to work again.

6.3 We propose that the current single benefit structure should change to have two rates of benefits. The requirement for permanent incapacity from teaching would remain, but the severity of the medical condition and its impact on the future earnings capacity of the retiree would determine which rate of benefit would be awarded to a member retiring on the grounds of ill health. We are seeking views on an approach under which:-

6.3.1 those who are permanently too ill to teach, but could undertake other non-teaching employment, would receive the immediate payment of unreduced benefits based on the length of their pensionable service; and

6.3.2 those whose medical condition would prevent any further employment in any capacity would be eligible for benefits based on the length of their pensionable service plus one half of their prospective service to normal pension age. This would particularly assist those who have to retire on health grounds early in their career. For those eligible for this higher level of benefit, it may be appropriate to undertake periodic reviews of their continuing entitlement to the higher rate of ill health retirement benefit. The nature and frequency of such reviews has yet to be determined, but they would take full account of the medical condition that led to ill health retirement to ensure that reviews would only take place in appropriate circumstances.

6.4 Position of those out of pensionable service

6.4.1 We have considered carefully how we should deal with applications for early payment of benefits on grounds of ill health from those who are no longer employed in the teaching profession. We have come to the view that individuals who develop a medical condition that would prevent them from undertaking any form of employment should still be able to apply for such benefits. To be eligible, the person must be unfit to undertake any work, that is they would be required to meet the criteria that members who were still working as teachers or lecturers would have to meet to get the higher rate of ill health retirement benefits. Such retirees would receive unreduced preserved pension benefits based on the actual length of their pensionable teaching service, but no enhancement would be payable.

6.4.2 Before an application for ill health retirement is submitted from a serving member, we would have expected the employer to have considered all other options, such as stepping down, redeployment etc, have been considered and ruled out. This approach is not possible for those who had already left teaching. We have concluded, therefore, that former members who develop a medical condition that would enable them to be employed outside teaching should not be eligible for ill health retirement benefits from the STSS.

Aim of Proposal

6.5 The aim of the proposal to change the structure of ill health retirement provision is to ensure that benefits properly reflect the circumstances of the individual in a way that the existing arrangements fail to do adequately.

6.6 With early and active help and support from employers and their occupational health specialists, members who become ill are more likely to be rehabilitated and supported back into work. Where ill health retirement is the appropriate option, we need a benefit structure that is more tailored and appropriate than the existing arrangements.

6.7 In summary, the proposal is that a STSS member who retires because they are permanently unable to teach but would still be fit to work in a different capacity would receive an unenhanced rate of benefits. Those who are deemed unable to work in any capacity would receive a higher rate of benefits than they would under the existing benefit structure, and therefore would be more appropriately compensated for their inability to work.

6.8 We would welcome views on this approach to ill health retirements in the future.

7. TRANSITIONAL ARRANGEMENTS

7.1 Revised pension arrangements, including a normal pension age of 65, will be introduced for new STSS members with effect from 1 September 2006. Existing STSS members would not become subject to the higher pension age until 1 September 2013 from which point they would also benefit from any scheme improvements that are associated with the new arrangements.

7.2 It may be possible to introduce some changes to the existing STSS arrangements in respect of **all** members from 2006, particularly where they would not result in any additional scheme costs. Other changes would be associated with the move to a higher pension age and would therefore apply only from the point at which individuals' future service becomes subject to a normal pension age of 65.

7.3 We do recognise, however, that some existing STSS members may wish to transfer to the new arrangements in advance of 2013. They may, for example, wish to take advantage of the provision in the new arrangements for dependants' benefits for unmarried partners or of the improvement in the accrual rate eg from a $\frac{1}{80\text{th}}$ to a $\frac{1}{60\text{th}}$ basis. The Teachers' Pensions Review Group (TPRG) will consider what arrangements could be put in place to provide for individuals who would wish to move to the new arrangements in advance of 2013 to be able to do so. We would be interested to know whether such an arrangement would be attractive to STSS members; and there are specific questions relating to this issue at the end of this document.

8. PREMATURE RETIREMENT AND SEVERANCE ARRANGEMENTS

8.1 Background

8.1.1 The award of premature retirement benefits to scheme members aged over 50 and under 60 has been a feature of the STSS since the late 1970s. Unreduced retirement benefits can be paid immediately to individuals who have been made redundant or whose employment has been terminated early in the interests of the efficient discharge of the employer's functions.

8.1.2 The arrangements remained unchanged until 1997 at which point it became a statutory requirement on individual employers who decide to award premature retirement (STSS members have no automatic right to premature retirement) to meet the additional costs associated with each premature retirement. The practical effect of this is that the retirement benefits are paid in two parts: (a) actuarially reduced annual pension and retirement lump sum based on age-related factors paid by the STSS and (b) mandatory compensation paid by the employer to top-up the benefits to the equivalent of their unreduced level. The teachers' regulations permit mandatory compensation to be paid by the employer or for the employer to discharge the liability by payment of a capitalised lump sum to 'a suitable person'. We would welcome comments from employers as to whether it would be beneficial to them if SPPA took on the role of the suitable person.

8.1.3 Until 1997, premature retirement benefits were paid in full from the STSS. As such, the costs associated with premature retirements were met globally by the Scheme and, thus, the cost was spread across all STSS employers through adjustments to the employer contribution rate with no account taken of the extent to which individual employers awarded premature retirement benefits. The 1997 changes properly aligned the responsibility for meeting the cost of premature retirements with those who made the decision to grant premature retirement.

8.1.4 Statutory arrangements also exist for employers in the maintained sectors (schools, FE colleges and universities) to supplement premature retirement benefits with additional pension and lump sum on a discretionary basis, known as premature retirement compensation (PRC) enhancement. The amount of PRC enhancement awarded in individual cases is a matter for the employer but there are statutory maxima that cannot be exceeded. PRC enhancement that may be awarded is the shortest of: -

- the period by which service falls short of 40 years,
- the period between retirement and 65th birthday,

- the length of actual service,
- 10 years.

8.2 Enhanced Severance Payments

Since 1997, employers have also had discretionary power to make enhanced severance payments up to a maximum of 66 weeks' pay to individuals aged under 60 who have been made redundant or whose employment has been terminated early on grounds of the efficient discharge of the employer's function. There is no minimum age but for those aged 50 or over an enhanced severance payment can only be paid if the individual has not been awarded premature retirement. Where an enhanced severance payment is awarded the amount that may be paid is subject to an age-related maximum limit: two weeks pay in respect of each year of qualifying service undertaken after the age of 18 and an additional 3 weeks' pay in respect of each year of qualifying service undertaken after age 41, subject to the 66 week limit and less any redundancy payment.

8.3 Possible options for change

8.3.1 A major constraint of the premature retirement arrangements is that there is no flexibility to offer individuals something between actuarially reduced benefits and full retirement benefits.

8.3.2 Even so, the option of offering a premature retirement package is clearly an important tool for employers in the effective management of their workforce. In releasing staff (with or without a retirement package), employers might create financial savings on the salary bill but losing the knowledge and experience of the individual could have an adverse impact on the school's or college's performance. In managing their workforce, employers should consider that premature retirement is just one of a range of options where alternatives include:

- The capacity for the individual being considered for premature retirement to make a continuing contribution;
- Whether the institution's strategic, academic and financial objectives can be met in another way;
- Whether a 'stepping down' arrangement or part-time working would be appropriate;
- The efficiency savings, taking into account the costs of premature retirement;
- How the individual's retirement would affect the age structure and promotion prospects of staff;

- If the individual is not being made redundant, the prospects for finding a replacement bearing in mind the recruitment problems in some locations and disciplines;
- If a post is abolished, whether there are any other options. For example it may be possible to arrange redeployment of the individual by agreement with another institution.

8.3.3 There are two overarching factors that will impact on future premature retirement arrangements whatever form they might take:

- **UK Government policy to increase the minimum retirement age to 55.** This will take effect in the STSS for new entrants from 2006 and for existing scheme members from 2010, although Inland Revenue rules will provide an exception for those who in December 2002 had an existing contractual right to the early payment of pension benefits.
- **Age discrimination legislation:** It will be necessary to consider how to ensure that premature retirement arrangements are compatible with age discrimination legislation.

8.3.4 We recognise that employers would wish to maintain the option of offering premature retirement and severance packages as an effective tool in managing their workforce; and that STSS members would also want such arrangements to be available. But we need to ensure that the current arrangements are replaced with a framework that is fairer, more flexible and affordable.

8.3.5 Consultees are invited to provide suggestions for a new approach to severance and premature retirement that would best suit the flexible and effective management of the workforce in the context of new opportunities around the transition from work to retirement that are expected to be introduced in 2006 and, looking further ahead, in the context of the increase to 55 in the minimum retirement age in 2010.

8.3.6 Careful consideration needs to be given to the justification for basing compensation for loss of employment on the length of an individual's service. Existing approaches typically relate the level of severance or redundancy payment to the individual's length of service; and provides for immediate access to pension benefits for those over age 50. An alternative approach could be to move to an arrangement where the value of the benefit payable to an individual whose employment is being terminated is not solely governed by their age or length of service. This could be achieved by providing that, after a minimum qualifying period, everyone would become entitled to the same level of compensation for loss of employment regardless of the length of their actual service. This would, for example, allow for benefits of a similar value to be paid to individuals one of whom was

just under, and the other just over, minimum pension age. In the former case the payment could be taken as cash or used to buy additional pension benefits at retirement; the older individual would have the same choices but in addition could choose to use their payment to supplement any pension benefits that are put into payment immediately.

8.3.7 Views are invited on whether there are policy reasons for retaining a service and/or age related benefit structure for compensation for loss of employment. If so, in what circumstances might they be appropriate and what form might the benefits take?

9. BUYING ADDITIONAL PENSION BENEFITS

9.1 Under existing arrangements, there are 3 ways in which a STSS member can purchase additional pension benefits:-

- The Added Years facilities of the STSS – Past Added Years (PAY) and Current Added Years (CAY);
- Paying Additional Voluntary Contributions (AVCs) to the STSS in-house provider – Prudential; and
- Paying Free Standing AVCs to any other AVC provider.

9.2 The extent to which STSS members can buy additional pension benefits is governed by Inland Revenue restrictions. Additional contributions to PAY and/or AVC arrangements are limited to 9% of salary; and there are also limits on the amount of additional pension benefits that can be bought. For example, the PAY provisions allow only for the purchase of previous gaps in pensionable service. They do not allow scheme members to buy additional pension credit during their career to offset any change in the pension effects of, say, moving to part time working later on in their career.

9.3 Under new proposals from Inland Revenue that are due to come into force in 2006, there will be a substantial relaxation of the restrictions on buying additional pension benefits that apply to members of occupational pension schemes such as the STSS. New flexibilities will enable STSS members to contribute significantly more than 9% of their salary to buy additional pension benefits; and to plan earlier and with much more flexibility the way in which they will save towards achieving the level of pension benefits on which they would want to retire.

9.4 We are keen to explore how we can make best use of these new flexibilities from 2006 in a way that STSS members would most value. This will mean a comprehensive review of the existing PAY and AVC arrangements and the restrictions that are there to comply with existing Inland Revenue requirements. The aim would be to develop new arrangements that are appropriate for a public service pension scheme, more flexible than the existing arrangements and provide greater choice and options to members that would fit better with a modernised STSS.

9.5 Much more detailed work needs to be undertaken to develop new arrangements which could, for example, be on the basis of STSS members buying an amount of additional pension rather than added years (which would provide greater certainty when planning for retirement). In the meantime, we would be interested to have views on the extent to which STSS members would value and make use of increased scope to buy additional pension benefits in the STSS.

9.6 Additional Voluntary Contributions

We are also discussing with Prudential what changes could be made to the existing in house AVC arrangements to take advantage of the new Inland Revenue flexibilities from 2006. Here, we are also looking at ways of increasing choice and flexibility to STSS members in revised AVC arrangements that fully complement a modernised STSS. We shall be taking forward work on this with Prudential and union representatives and employer associations.

9.7 Current Added Years Provision (CAY)

9.7.1 There are provisions under the STSS that enable those who have left service to continue membership of the scheme for a period of up to 3 years (or 6 years if teaching abroad) by paying both the employer and employee contributions to the scheme. This provision has its origins in a time where there were not the options for individuals who leave an occupational pension scheme to make alternative pension provision. It was also geared towards enabling members to cover a gap in their teaching service. Over the years the provision has been increasingly used as a means of maintaining membership of the STSS by individuals who never return to the profession.

9.7.2 We believe that the CAY provisions have considerably less relevance than they did when the provision was introduced. There are now many more options available to individuals to make alternative pension provision; and the new Inland Revenue flexibilities that are due to be introduced from 2006 will further increase those options.

9.7.3 We are, therefore, inclined to remove the CAY provision from the STSS (other than in respect of members who have been called up as members of Reserve Forces) but would first want to know what arguments consultees would want to present in support of maintaining the provision in its current or a modified form.

10. How to Respond

You can download copies of the consultation document and questionnaire from our website: <http://www.scotland.gov.uk/sppa/> under pension reform – Teachers.

The questionnaire can be returned as a hard copy by post to:

Scottish Public Pensions Agency
Policy Branch (Teachers)
7 Tweedside Park
Tweedbank
Galashiels
TD1 3TE

Send by email to:

stsspensionsreform@scotland.gsi.gov.uk

11. Additional Copies

If you wish to obtain a paper copy of this document it can be downloaded as a word document from <http://www.scotland.gov.uk/sppa/>.

Other copies can be requested by email to stsspensionsreform@scotland.gsi.gov.uk.

12. Plans for making results public

A summary of the responses to this consultation will be published on the SPPA Website in Spring 2005.

The outcome will also form the basis of additional discussions by the Teachers' Pension Review Group (TPRG) and the Management Advisory Group (Scotland) (MAG(S)). This will then lead to a further consultation, to take place from late Spring 2005, on proposals for change to the regulatory framework of the Scottish Teachers' Superannuation Scheme.

REVIEW OF THE SCOTTISH TEACHERS' SUPERANNUATION SCHEME CONSULTATION RESPONSE FORM

**The closing date for this consultation is: 14 January 2005.
Your comments must reach us by that date.**

The information you send to us may need to be passed to colleagues within the Scottish Executive Education Department and the Department for Enterprise and Lifelong Learning and/or published in a summary of responses received in response to this consultation. We will assume that you are content to do this, and that if you are replying by e-mail, your consent overrides any confidentiality disclaimer that is generated by your organisation's IT system, unless you specifically include a request to the contrary in the main text of your submission to us.

The Scottish Public Pensions Agency may, in accordance with the Code of Practice on Access to Government Information, make available on public request, individual consultation responses. This will extend to your comments unless you inform us that you wish them to remain confidential.

Please tick if you want us to keep your response confidential	
Name	
Organisation (if applicable)	
Address	

If you have a query relating to the consultation process you can contact SPPA's Policy Branch:

Fax: 01896 893230

Email: stsspensionsreform@scotland.gsi.gov.uk

If you want to know something specific about the Scottish Teachers' Superannuation Scheme, or as a member about your pension, you can contact the SPPA's helpdesk on:

Telephone: 01896 893000

Please mark a cross in one of the following boxes which best describes you as a respondent:-

Employer – Local Authority, Independent, FE, HE, Other – please specify
Union Representative – please specify
HR Manager
Teacher
Lecturer
Student Teacher
Other – please specify

Packages And Costs

Q1. What do you value most about the scheme? (See Section 3)

Comments

Q2. What improvement would you value most from the options for possible change?

Comments

Q3(a). Would you, as members, be prepared to pay more than the current 6% contribution for improved benefits?

Yes	No
Comments	

Q3(b) If so, how much more would you be willing to pay for improved personal benefits?

Comments

Q3(c) And/or improved family benefits?

Comments

Human Resource Implications

Q4. What could be done to increase the use of the existing provisions?
(Section 4.3)

Comments

Q5(a). Are you content with the options being considered as detailed in paragraph 4.4.1?

Yes	No
Comments	

Q5(b) Do you have any other ideas in relation to new flexibilities for consideration?
If so, please specify:

Yes	No
Comments	

Q6(a). Do you envisage any barriers that could prevent the successful introduction of these changes?

Yes	No
Comments	

Q6(b) If so, how could these barriers be overcome?

Comments

Q7. Do you agree that the increased pension flexibilities will support recruitment and retention?

Yes	No
Comments	

Q8. What more can be done to promote 'winding down' to retirement as a natural event that does not carry with it any suggestion of "not being up to the job"?

Comments

Q9. What are the implications for Human Resource management of taking full advantage of increased flexibility in the way in which individuals are supported in the transition from work to retirement?

Comments

Flexible Retirement

Q10. Would STSS members and employers welcome proposals to allow members to draw some or all of their pension from the age of 55, whilst remaining in the same employment? **(Section 5)**

Yes	No
Comments	

Q11(a) What other flexibilities would you like to see?

Comments

Q11(b) What improvements would they produce?

Comments

Q11(c) How could these flexibilities be used to support more modern working practices?

Comments

Ill Health

Q12. Do you agree with the principle that the level of ill health retirement benefit should take account of the severity of the medical condition and future earnings capacity? (**section 6.3**)

Agree	Disagree	Not sure
Comments		

Q13 Do you agree that the proposed rate of enhancement of one-half of prospective service to normal pension age (**paragraph 6.3.2**) is an appropriate level of compensation for those unable to work in any capacity?

Yes	No
Comments	

Q14. Would scheme members be prepared to pay more than 6% to ensure that this, or a higher rate of enhancement was provided? (**Section 3.5-3.7**)

Yes	No
Comments	

Q15. Do you agree that ill health retirement benefits should be paid to out of service members in line with the proposal at 6.4.2?

Agree	Disagree	Not sure
Comments		

Transitional Arrangements

Q16(a). Should members be allowed to elect to move to the new arrangements in advance of 2013 (**See Section 7**)?

Yes	No
Comments	

Q16(b) If so, should members be allowed to exercise this option any time before 2013?

Yes	No
Comments	

Q16(c) Or as a one-off options exercise?

Yes	No
Comments	

Q16(d) What are the advantages and disadvantages of each option for scheme members and employers?

Comments

Premature Retirement and Severance

Q17(a) What are the policy reasons for retaining a service and/or age-related benefit structure for compensation for loss of employment?

Comments

Q17(b) In what circumstances might service and/or age related benefits be appropriate; and what form might they take?

Comments

Q17(c) Would employers find it beneficial if SPPA were to act as the suitable person under Regulation 19A of the Teachers' (Compensation for Premature Retirement) Regulations 1996 (as amended) so that employers could discharge their liability for payment of either mandatory or discretionary compensation (enhancement) by payment of a capitalised lump sum to SPPA?

Yes	No
Comments	

Buying Additional Pension Benefits

Q18. Would members find it beneficial if the existing added years provisions were changed to allow the purchase of 'additional pension' without the need for an earlier break in service?

Yes	No
Comments	

Q19(a) If scheme rules were changed to allow increased scope to buy additional benefits within the STSS, would you make use of those provisions?

Yes	No
Comments	

Q19(b) What ways of making additional contributions would you find most useful, for example, lump sum payments, or higher regular contributions?

Comments

Q20. Do you agree that the in-house AVC scheme usefully complements the STSS added years facility? (**Section 9.6**)

Agree

Disagree

Not sure

Comments

Q21(a) Do you agree with the arguments in section 9.7 for retaining Current Added Years provision only for members of the Reserve Forces?

Agree	Disagree	Not sure
Comments		

Q21(b) If you disagree please include your justification, along with any safeguards that could be included, here:

Comments

Q22. Are there any specific Scottish issues that you would like addressed in this review?

Yes	No
Comments	

Q23. We would welcome any further comments you may have.

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 tick if you want us to keep your response confidential	
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Code of Practice on Consultation

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.cabinet-office.gov.uk/regulation/consultation/code.htm>.

Completed questionnaires and other responses should be sent to the address shown below by 14 January 2005.

Send by post to:

Scottish Public Pensions Agency, Policy Branch (Teachers), 7 Tweedside Park, Tweedbank, Galashiels, TD1 3TE

Send by email to:

stsspensionsreform@scotland.gsi.gov.uk

SPPA may, in accordance with the terms of the Code of Practice on Access to Government Information, make available on public request individual consultation responses unless individual consultees have stated that they wish their responses to remain confidential.