

SCOTTISH TEACHERS' SUPERANNUATION SCHEME (STSS)

REPORT ON CONSULTATION ON PROPOSAL TO INCREASE EMPLOYEE CONTRIBUTION RATES IN APRIL 2013 AND SUMMARY OF RESPONSES

1. Purpose

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

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 2013-14. 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 2013-14 Scottish Government budget. The UK Government is seeking to raise contributions by 3.2% of average pay by April 2014.

2.2 The Scottish Government's consultation began on 20 December 2012 and closed on 1 February 2013 and covered increases for 2013-14 only. A short consultation period was necessary to reflect the requirement to have the necessary regulations in force on 1 April 2013. This report summarises the 193 responses received by the SPPA to that consultation.

3. Consultation process

3.1 The Scottish Government's consultation document was issued by email to STSS stakeholders on 20 December 2012. 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 Table 1). The tiers in Table 1 were based on those rates proposed by the Department for Education in its consultation issued on 26 October 2012 for teachers in England and Wales.

3.2 The proposals were that:

<u>Table 1: Proposed increases to contribution rates (before tax relief)</u>			
Full Time Equivalent pensionable pay	Contribution rate 2012/13	Contribution rate 2013/14	Contribution rate increase in 2012/13
Up to £14,999	6.4%	6.4%	0%
£15,000 to £25,999	7.0%	7.0%	0%
£26,000 to £31,999	7.3%	7.9%	0.6%
£32,000 to £39,999	7.6%	8.8%	1.2%
£40,000 to £44,999	8.0%	9.2%	1.2%
£45,000 to £74,999	8.0%	10.1%	2.1%
£75,000 to £99,999	8.4%	10.6%	2.2%
£100,000 and above	8.8%	11.2%	2.4-2.6%

4. Analysis of Responses

The consultation posed 8 questions around these proposals. The main comments are summarised in the tables at Annex A.

The breakdown of respondents is as follows:

Respondents	Permission to publish response given
Individual responses (178)	Varying
Employers (8)	
Aberdeen City Council	
Dundee City Council	
Scottish Borders Council	
Inverclyde Council	
West Dunbartonshire Council	
University of Strathclyde	
2 anonymous employer responses	
Teachers' unions (7)	
Educational Institute of Scotland (EIS)	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
University and Colleges Union (UCU)	Yes
NASUWT	Not specified
Scheme membership as at 31/3/2012	
	80,260

5. Key Messages

- Respondents' view was that member contributions should not be increased to meet the UK Government's spending deficit and that any increases should arise solely from financial factors arising from the scheme valuation.
- Respondents were disappointed that the Scottish Government had not found additional resources from within its own budget.
- Some respondents considered increases to be wholly unjustified as we move to a redesigned CARE pension scheme from April 2015.
- Many respondents expressed concern that these further increases will result in a large number of teachers opting out.
- Respondents were also concerned about increasing employee contributions during a pay freeze, compounded for many by the removal of child benefit, loss of tax credits and increases in NI contributions.

6. Next Steps

The Scottish Government will consider the responses to the consultation exercise. Scottish Ministers will agree the rates to be applied and will bring forward regulations to be laid before the Scottish Parliament in order to come into effect on 1 April 2013.

Question 1. Do the proposed tiered contributions meet the Scottish Government's objectives of protecting the low paid and minimising opt outs from the scheme?

	Responses
Yes	31
No	85
Respondents who did not answer this question	77
Main comments made:	
<ul style="list-style-type: none"> • All teachers who are progressing through the main grade scales should be fully protected. • Agree that revised tiering protects lower paid members but concerned that middle earning teachers may be paying disproportionately high contribution increases. • The proposed tiers do not meet the Scottish Government's objective of minimising opt outs. • The proposal for an average 3.2% employee contribution increase by 2014/2015 appears to have been plucked out of the air to raise £2.8bn across notionally funded schemes. • In order to meet Scottish Government's objectives, it has to be assumed that (a) scheme members will pay the additional contributions rather than opting out of the scheme; (b) new members eligible to join the scheme will do so in line with recent historical trends; and (c) there will be no significant change in the balance between part-time and full-time teachers members. These assumptions appear to be fragile. • These increases represent a tax grab by the Coalition Government. The Scottish Government has stated as much but intends to pass the increases onto scheme members. 	

Question 2. Are there any other rates which you think would help to further minimize any opt outs from the STSS but will deliver the necessary increase?

	Responses
Yes	38
No	62
Respondents who did not answer this question	93
Main comments made:	
<ul style="list-style-type: none"> • A flat rate increase in employee contributions from £26,000 onwards should be put in place. • A flat rate percentage increase across all salaries would be fairer to everyone and would help minimise opt outs. • The tier £45K to £74,999 is too wide. • The alternative tiers based on Scottish salary bands as discussed by the Scottish Teachers' Pensions Scheme Negotiating Group should be used. By using the Scottish salary bands an increased number of teachers at the outset of their career would receive greater protection from the contribution rate increases as compared to the proposed contribution increases in England and Wales. 	

Question 3. Do you consider that the protection proposed for those earning up to £25,999 should be extended? If so, it would be very helpful if you would specify the level to which it should be extended and the reasons for doing so. Any comment on how the costs should be borne by those earning more would also be welcomed.

	Responses
Yes	46
No	54
Respondents who did not answer this question	93
Main comments made:	
<ul style="list-style-type: none"> • It is disappointing that Scottish Government are not seeking to consult upon the most equitable model possible for Scottish teachers, given that further protections are in fact affordable. Additionally, this approach is disappointing given that the union side, whilst remaining opposed to contribution increases in principle, expressed a majority view that protection up to point 5 of the Main Grade Scale would be desirably should increase in fact be pursued by Scottish Government. • The purpose of such an extension is unclear and it would only serve to create an unjustifiable greater percentage increase for those earning above £26,000. • There is already a shortage of applications for headship. This further reduction in the financial incentive to take on headship can only worsen that position. • A Scottish tiering model should afford protection to those up to point 5 of the Main Grade Scale (Point 5 = £32,394). • Bearing in mind the aim of ensuring that contribution levels are set at a level required to fund scheme benefits, it would appear that in merely seeking to implement the same contribution increases as in England and Wales, no thought is in fact being given to the particular cost saving required for the Scottish scheme, which is concerning. The tiering arrangements proposed appear to have been put forward for Scotland for convenience only. • Consideration could be given to protecting slightly higher up the salary scale ie a maximum of two points higher on the teacher's scale or setting the increase for same at a lower percentage, less than 0.6%. • Those in band £15,000 to £25,999 should have some increase applied in order to smooth things out. 	

Question 4: Are there any consequences of the proposed contribution tiers that you consider have not been addressed?

	Responses
Yes	65
No	29
Respondents who did not answer this question	99
Main comments made:	
<ul style="list-style-type: none"> • The continued failure to conduct a scheme valuation makes it impossible to avoid a conclusion that teachers are being asked to increase contributions without any sense of what actual level of contribution is needed for ensuring a viable scheme. The total disregard of the cost sharing principles agreed in the previous reform is a matter of political arrogance. • A ratio of 2:1 between employer and employee contributions is commonly seen as fair and should be a matter of principle for the Scottish Government to raise with the Coalition Government. • Under a CARE scheme there is absolutely no justifiable reason to have tiered contribution rates. • Such a tiered contribution increase arrangement would be nothing other than an additional tax on higher earners or, effectively, a cut to salaries. • Government is eroding financial incentive to apply for promotion/promoted posts. • STSS members need to be made aware of the changes to their contribution rates and the impact on their salaries in a timely and transparent manner. We hope that the Scottish Government would continue to monitor opt-outs and reconsider future contribution increases should the opt-out levels increase significantly. • Members in the lower part of the £45,000 to £74,999 tier will be at a distinct disadvantage compared with other members because of the differential effect of tax relief. • The contribution rate increase for those earning between £45,000 and £74,999 is very much higher than the increase for those in the band immediately below. Our view is that the increases for the lower bands should be slightly higher to allow for a lower increase to those in band £45,000 to £74,999. 	

Question 5. 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	69
No	24
Respondents who did not answer this question	100
Main comments made:	
<ul style="list-style-type: none"> • Women are at greater risk of being forced to opt out for financial reasons because the majority of the workforce are female and part-time. • As a result of pension contributions being based on the full-time equivalent salary, the proportion of disposable income used for pension contributions disproportionately impacts on part-time teachers. As there are significantly more female part-time teachers we believe that women will be hit harder by the proposed changes than men and that many part-time teachers will simply not be able to afford to be members of the STSS and will opt out. • Classroom teachers within 10-15 years of their state retirement age are likely to be at the top of their scale and so have no access to further incremental increases. These teachers have seen their real weekly wage decline in recent years and have also been subject to a 2-year pay freeze. Women in this group have seen their state retirement age rise from 60 to 64 and then to 66, which means they have had to forego a proportion of their state retirement pension. • The terms of a CARE scheme suggest there is no actuarial necessity for there being any tiers in the scheme and any such will be disproportionately disadvantageous to school leaders to staff in promoted posts, hence building inequality into the scheme. 	

Question 6. Should the tiering levels be based directly on Scottish teacher payrates?

	Responses
Yes	46
No	44
Respondents who did not answer this question	103
Main comments made:	
<ul style="list-style-type: none">• It is disappointing that, despite the majority union view in favour of Scottish pay scales being used, Scottish Government have instead reverted to offering the tiering levels proposed in England and Wales.• While it would have been entirely appropriate to have used the Scottish pay rates in the first instance it would cause additional difficulties at this stage, specifically, there will be groups of people facing a considerable larger increase than they would have done otherwise since they will move from one tier to another (as the tiers change) as well as facing a 2013 increase.• Scottish pay scales have had no impact upon the levels of tiering in advance of 2013/2014 proposals and there appears to be no reason why they should have any further impact in future years.	

Question 7. Are there any other specific issues around these potential increases that you would like the Scottish Government to consider?

	Responses
Yes	62
No	19
Respondents who did not answer this question	112
Main comments made:	
<ul style="list-style-type: none"> • It has not been demonstrated that the scheme is in deficit. • Increases are significant and should be staged over the next few years. • Tiered contribution rates should be re-assessed annually rather than monthly in line with LGPS regulations. Assessing rates on a month by month basis is extremely time consuming for already busy Payroll sections and, at a time when everyone is trying to reduce costs, puts further pressure on decreasing staff levels. 	

Question 8. Do you think that the proposed change outlined in the consultation letter at section 8 for dealing with retrospective pay awards and mid month changes is necessary? If not what if any alternative would you propose?

	Responses
Yes	25
No	42
Respondents who did not answer this question	126
Main comments made	
<ul style="list-style-type: none"> • The proposed solution is indeed a sensible one. It is also fairer to employees as they will not have to pay unbudgeted higher contribution rates on salary which has already been paid. It will also be much easier for employers to administer. 	