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Dear Jim

**Scottish Teachers' Pension Scheme valuation as at 31 March 2016:
Implementing employer contribution rate change from 1 September 2019**

1. This letter is addressed to the Scottish Public Pensions Agency ('SPPA') and relates to the Scottish Teachers' Pension Schemes ('STPS').
2. Our valuation report of 18 February 2019¹ sets out that the STPS **corrected employer contribution rate**, calculated in accordance with HMT Directions², is 22.4% of pensionable pay. The Directions require that this rate is calculated to reflect payments over the valuation **implementation period** (1 April 2019 to 31 March 2023). The contents of our valuation report reflect the requirements of the Directions.
3. The contribution rate paid by STPS employers is prescribed by the scheme regulations³. We understand that you are currently consulting on amendments to these regulations which are intended to implement the outcome of the valuation. Whilst the STPS employer contribution rate implemented in regulations is set with reference to the formal valuation results, we understand that Scottish Government has some flexibility in how this is implemented.
4. You have indicated that the Scottish Government is considering whether to delay any change to the employer contribution rate until 1 September 2019. I understand that if this option were to proceed, then employers would continue to pay contributions at the current rate, of 17.2% of pensionable pay, between 1 April 2019 and 31 August 2019.
5. You have asked us to calculate an adjustment to the corrected employer contribution rate which would aim at ensuring that the level of the notional fund at the next valuation of the scheme would expect to be unaffected by the potential implementation delay. Our expectation of equivalence is based upon the assumptions underpinning the valuation, primarily the size of the scheme payroll over the **implementation period**. In practice, the level of the notional fund at the next valuation, under any particular scenario, will depend on scheme experience.
6. We calculate that if implementation of the new contribution rate were delayed to 1 September 2019, additional contributions of 0.6% of pensionable pay would need to be payable over the remainder of the period to 31 March 2023 to maintain the level of funding at the next valuation. **Under this approach employers would therefore pay contributions at a rate of 23.0% of pensionable pay over the period 1 September 2019 to 31 March 2023.**

¹ Scottish Teachers' Pension Schemes, Actuarial valuation as at 31 March 2016: Report by the Scheme Actuary, dated 18 February 2019.

² The Public Service Pensions (Valuations and Employer Cost Cap) Directions 2014 (as amended).

³ Regulation 186 of The Teachers' Pension Scheme (Scotland) (No 2) Regulations 2014 (as amended) and Regulation H3 of The Teachers' Superannuation (Scotland) Regulations 2005 (as amended).

7. The data, method and assumptions used for this purpose are as described in the 2016 valuation report, which should be read in conjunction with this letter. The results are sensitive to the assumptions made. The executive summary and section 4 of the 2016 valuation report provide more details about the sensitivity to the assumptions.
8. In December 2018, the Court of Appeal provided a judgment that the transitional protection provided to some firefighters was unlawful discrimination. Details about this and the Government's decision to pause the cost cap process is provided in paragraphs 1.3 and 1.4 of the executive summary of the 2016 valuation report.
9. Terms defined in HMT Directions are shown in bold italics when used in this letter.
10. This work has been carried out in accordance with the applicable Technical Actuarial Standards, TAS 100 and TAS 300, issued by the Financial Reporting Council (FRC). The FRC sets technical standards for actuarial work in the UK.
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12. For the avoidance of doubt, we would do not intend to update our formal valuation report to reflect any delay in implementing the STPS valuation.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Garth Foster', with a stylized flourish at the end.

Garth Foster

Fellow of the Institute and Faculty of Actuaries