Scottish Public Pensions Agency
Buidheann Peinnseanan Poblach na h-Alba

Scottish Teachers' Pension Scheme: proposed changes to member contributions from 1 April 2024

Scottish Government consultation 2023

About This Consultation

The Scottish Teachers' Pension Scheme (STPS) continues to be an integral part of the remuneration package for teachers in Scotland. The Scheme offers the security of a guaranteed income in every year of retirement for all its members, on some of the most generous terms available from a pension scheme.

At present employers contribute 23% of each member's pensionable earnings towards the cost of scheme benefits. Members are required collectively to contribute 9.6% of pensionable pay across the whole scheme membership. This is known as the member contribution 'yield'.

While the yield is a fixed percentage, there are a range of approaches that could be taken to ensure that 9.6% is collected from across the whole scheme membership. The current approach is a 'tiered contribution' approach which shares out the 9.6% requirement across the workforce by charging a sliding scale of rates to members according to their pensionable earnings. The aggregate amount collected across members adds up to 9.6%.

Recently the STPS has begun to underperform against the target yield. This is mainly as a result of the annual uprating of contribution tiers which have increased in line with the Consumer Price Index (CPI). While inflation has recently been in excess of annual pay increases, this has led to the contribution tiers increasing to the extent that members have dropped into lower tiers creating a downward pressure on the member contribution yield. The current contribution structure is expected only to achieve a yield of 9.31%

Therefore, now is an appropriate time to seek views from all interested parties to inform changes to member contributions, with a view to preserving participation in the Scheme while protecting its substantial value for members in retirement. This consultation is seeking views on the proposed changes to the member contribution structure and the rationale for those changes.

The consultation also seeks views on the attached draft amending instrument which introduces changes to the scheme regulations in order implement member contribution changes and changes to the employer contribution rate from 1 April 2024.

Duration of Consultation

This consultation will run for a period of eight weeks commencing on Friday 22 December 2023 and ending on Friday 16 February 2024.

How to respond

Please use the consultation response form which can be downloaded from the SPPA website and once completed, send to sppapolicy@gov.scot before midnight on the closing date.

Alternatively, responses can be posted to:

STPS: Member Contributions Consultation
SPPA, Tweedside Park Tweedbank
Galashiels
TD1 3TE

Further information

If you are unable to access an electronic version of the document, please write to the above address and a paper copy will be provided.

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The contact details for the Information

Commissioner's Office are:
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Water Lane
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1. Background - member contributions

1.1. The Scottish Teachers' Pension Scheme (STPS) is a contributory scheme, meaning that members and their employers are required to pay towards the cost of benefits they build up in the scheme. An actuarial valuation is conducted every four years to ensure the level of contributions made by members and employers meet the full cost of their pension rights as they accrue them.

1.2. At present employers contribute 23% of each member's pensionable earnings towards the cost of scheme benefits. Members are required collectively to contribute 9.6% across the whole scheme membership. This is known as the member contribution 'yield'.

1.3. Prior to April 2007, the member pension contribution rate in the STPS was set at 6%. From April 2007 to March 2012 the rate increased to 6.4% of pensionable pay.

1.4. In 2010, the Independent Public Service Pensions Commission (IPSPC), chaired by Lord Hutton, concluded in its interim report that reform of public service pension schemes was necessary and that there was a case for a fairer distribution of the cost of public service pensions between employees and other taxpayers. The 2010 UK government Spending Review announced that public service workers would be asked to contribute more towards their pensions as part of wider reforms to put public service pensions on a sustainable footing. The contribution yield in the STPS rose from 6.4% to the present 9.6%, with the increase phased in over the three years from 2012-13 to 2014-15. The 9.6% yield was factored into the costings and design of reforms to the 2015 Teachers' Pension Scheme in England and Wales, set out in the 2012 Proposed Final Agreement, which was subsequently adopted for the STPS.

1.5. While the yield is a fixed percentage, there are a range of approaches that could be taken to ensure that 9.6% is collected from across the whole scheme membership. The simplest method is to ask each member to contribute a flat rate of 9.6%. An alternative is to share out the 9.6% requirement across the workforce by charging a sliding scale of rates to members according to their pensionable earnings. The aggregate amount collected across members adds up to 9.6%. This approach is known as 'tiered contributions' and is the method adopted across most public service pension schemes in the UK.

1.6. The tiering of member contributions has allowed the STPS to reduce potential financial barriers and encourage all staff to participate in the pension scheme which is intended as a mutual scheme for all members. Tiering has also allowed the scheme to recognise through higher contribution rates the beneficial effect of income tax relief on contributions and the additional value that higher earners tend to achieve over the course of their retirement, due in part to their final salary link.

1.7. Tiering has helped deliver the following shared priorities that underpin the current approach to member contributions:

- minimise the risk of opt-outs from the scheme across the whole membership
- ensure that the scheme remains sustainable and a valuable part of the reward package and affordable to all members

Both the Scottish Government and the Scottish Teachers' Pension Scheme Advisory Board ('the SAB'), comprising of trade union and employer representatives, remain committed to these principles.

Current Rates

1.8. As part of the tiered contribution approach, pensionable pay amounts are grouped into tiers and a contribution rate is set for each tier. The member pays the contribution rate on their actual pensionable earnings. From 2015-16 there were six tiers ranging from 7.2% for those earning below £25,999 to 11.9% for those above £75,000.

Table 1: 2015-16 Contribution Structure

Tier	Actual pensionable pay for the eligible employment	Contribution Percentage Rate
1	Up to and including £25,999	7.2%
2	£26,000 to £34,999	8.7%
3	£35,000 to £41,499	9.7%
4	£41,500 to £54,999	10.4%
5	£55,000 to £74,999	11.5%
6	£75,000 and above	11.9%

1.9. While this structure has been in place since 2015-16 and the percentage rates have remained the same, the pay bands have increased annually in line with the Consumer Prices Index (CPI). The current structure in place for 2023-24 is detailed in table 2 below:

Table 2: 2023-24 Contribution Structure

Tier	Actual pensionable pay for the eligible employment for 2023/2024	Contribution Percentage Rate
1	Up to and including £32,133	7.2%
2	£32,134.00 to £43,257	8.7%
3	£43,258 to £51,291	9.7%
4	£51,292 to £67,975	10.4%
5	£67,976 to £92,693	11.5%
6	£92,694 and above	11.9%

Introduction of the Career Average Revalued Earnings (CARE) Scheme

1.10. The 2015 public service pension scheme reforms introduced the new STPS 2015 Scheme, where pension is built up on a career average basis. As a result of the *McCloud remedy*, the final salary Scottish Teachers' Superannuation Scheme (STSS) closed to further accrual from 1 April 2022 and all members moved into the 2015 CARE scheme for future service from that point.

1.11. In a CARE scheme, members accrue the same proportion of pension in relation to their earnings over the course of their career, and on that basis is there is an argument that everyone should pay the same rate - that is the 9.6% yield. However, in the 2011 report, the IPSPC recommended a tiered contribution approach for the new CARE schemes, to reflect the differing characteristics of higher and lower earners. This recognises the mutual intention of the schemes and the continuing desirability to facilitate participation across the whole workforce, having regard to potential affordability concerns for lower earners. The considerations outlined in the IPSPC report apply equally to STPS.

1.12. In addition, many STPS members will have an ongoing 'final salary link' applied to their accrued service in the final salary STSS. The final salary link provides that members' benefits will be based on their pensionable pay on or near their retirement and not at the point they transitioned to the 2015 CARE Scheme. Therefore, higher earners will continue to derive more value from that service than lower earning members who tend to experience steadier pay progression through their career.

The requirement for changes to the contribution structure from 1 April 2024

1.13. When the contribution rates were reviewed in 2015, the Proposed Final Agreement between the UK Government and trade unions on scheme design for the reformed Teachers' Pension Scheme, provided that member contributions should be on a tiered basis and produce a total yield of 9.6%. Therefore, member contributions in totality are required to deliver a yield of 9.6% of total pensionable pay.

1.14. The 2020 scheme valuation carried out by the Government Actuary's Department (GAD) was concluded earlier this year. As part of that process an assessment is made of the existing member contribution structure and whether it is likely to meet the contribution yield over the valuation implementation period (2024 to 2027). For the STPS, the estimated yield from the current member contribution structure it projected to be around 0.3% lower than the required 9.6% yield over the period. This is primarily as a result of the mechanism for uprating contribution tier thresholds annually using CPI inflation, however, there are other factors. It is projected, based on assumptions, that in the short term at least, inflation will remain in excess of annual pay increases. This will lead to the tier thresholds increasing to the extent that members will drop into lower contribution tiers, creating a downward pressure on the member contribution yield.

1.15. Public service pensions are executively devolved to the Scottish Government and changes to the scheme require the consent of HM Treasury (HMT), this is largely because HMT provide funding for any shortfalls in pension scheme income via Annually Managed Expenditure (AME) funding. Therefore, as HMT continues to require a total yield of 9.6% for the STPS, a change is required to the contribution structure to deliver that yield from 1 April 2024.

2. Review of member contributions

2.1. The SPPA has worked closely with the SAB over the last six months to review the member contribution structure. The SAB are a statutory board and were commissioned to make recommendations on a new contribution structure as part of their responsibility to provide advice to Scottish Ministers on the desirability of changes to the scheme.

2.2. The SAB agrees that the current member contribution structure needs to be amended and has considered a number of potential options for the period 2024 to 2027. A summary of the nine options the SAB considered are shown in table 3 below:

Table 3: Summary of alternative contribution structures considered:

Option	High-level summary of alternative contribution structures modelled
1	All contribution rates increased by a single multiplier (x 1.0179)
2	All contribution rates increased by the same percentage (0.17%)
3	All contribution rates except the lowest tier increased by the same percentage (0.20%)
4	Contribution tier thresholds lowered by a single multiplier (x 0.95)
5	Five tiers with bottom two tiers unchanged, top two tiers merged (now pay 11.90%) and other existing contribution tiers increased by varying percentages (0.20% to 0.30%)
6	Seven tiers with salary limits adjusted for all existing tiers and contribution rate in the lowest tier remaining consistent with the current lowest tier
7	Two tiers with bottom tier unchanged and all other tiers amalgamated to a single flat rate
8	Three tiers with bottom two tiers unchanged and all other tiers amalgamated to a single flat rate
9	All tiers amalgamated to a single flat rate

2.3. Following extensive consideration, the SAB submitted advice to Scottish Ministers which indicated the areas on which SAB held a consensus view, and those on which the majority of the SAB agreed.

Shared principles

2.4. In considering changes to member contributions, there were aspects of a future member contribution structure with which all SAB members were in full agreement, and which SAB expect to be reflected in the revised structure from 1 April 2024:

- minimise the risk of opt-outs from the scheme across the whole membership
- ensure that the scheme remains sustainable and a valuable part of the reward package and affordable to all members

Majority member representatives' position

2.5. While all member representatives on the SAB were not able to reach unanimous agreement, there was, with the exception of the Association of Headteachers and Deputes in Scotland (AHDS), support for the following principles:

- The structure should retain protections for the lower paid

- A progressive tiered structure should be retained based on levels of pensionable pay, where scheme members with higher earnings pay a higher percentage of those pensionable earnings than lower paid scheme members.

2.6. The rationale behind the majority member representatives' position is that:

- There will continue to be a high level of final salary pension in teachers' pensions taken during the 2024-27 period (and indeed for some time after this). In fact, the implementation of the McCloud Remedy, where teachers (who started teaching before 1 April 2012) will be able to opt for their 2015-22 service in the final salary scheme, is likely to increase the level of final salary pension taken by teachers during 2024-27 and thereafter. It will only be when teachers who started teaching after 2015 come to their retirement that final salary service will be squeezed out of teachers' pensions and, of course, high levels of final salary pension benefit high earners (whereas the (CARE) pension is actuarially neutral in terms of this factor).

- Lower and middle earners would be adversely affected by reducing the number of contribution tiers. Moving to a more regressive employee contribution structure (where employee contributions are equalised or reduced across the salary levels in the STPS) will have the impact of increasing pension contributions for low and middle earners within the scheme. We would consider this to be a morally indefensible change when many teachers on low and middle salaries are reporting hardship arising from the cost-of-living crisis.

- Any significant increase in pension contributions for middle and low earners runs a very high risk of driving opt-outs.

- There is an element of the costs of the McCloud Remedy (i.e., increasing the final salary pension levels of older teachers) being paid for by younger teachers who do not benefit from the remedy because they have no pre-2012 service - and we do consider that there is a moral obligation which the scheme owes to those teachers.

2.7. In considering the options presented to SAB, the member representatives (with the exception of AHDS) were of the view that options one to three were the fairest and most equitable proposals, and that options four to nine (set out in table 3 above) would lead to disproportionate increases in member contribution payments for lower and middle-income earners. Options four to nine were therefore discounted.

2.8. There was consensus amongst the majority of member representatives to apply minimal change to both contribution increases and change to contribution tiers at this stage. There is also a desire to evenly spread the increase across all tiers and therefore the preference was to support Option 1 (shown in table 4 below).

Table 4: Option 1 – Amended existing structure

Tier	Actual pensionable pay	Contribution Percentage Rate	Proportion of members in each tier	Change in contribution rate
1	Up to £32,133	7.33%	30%	+0.13%
2	£32,134 to £43,257	8.86%	20%	+0.16%
3	£43,258 to £51,291	9.87%	27%	+0.17%
4	£51,292 to £67,975	10.58%	17%	+0.18%
5	£67,976 to £92,693	11.71%	5%	+0.21%
6	£92,694 and above	12.11%	1%	+0.21%
	Contribution yield	**9.6%**		

2.9. This structure amends the existing contribution structure by increasing all rates equally to ensure the required yield of 9.6% is achieved. In the structure:

- There are six tiers
- Salary limits for tiers are increased each year based on future pay awards to the Scotland teacher workforce from 1 April 2024 onwards
- Current contribution rates in each tier are increased by a multiple of 1.0179
- Contribution rates range from 7.33% to 12.11%
- The differential between the contribution rates in the lowest and highest tier increases from 4.70% to 4.78%

AHDS position

2.11. The AHDS highlighted that the existing contribution structure is tiered on the basis that those earning more pay a higher contribution tier than those earning less. This tiering recognises that in a final salary scheme, high earners tend to derive more value from their final salary benefits per pound contributed because of improved career progression. However, in a CARE scheme, there is no career progression benefit; pension is calculated based on earnings in each year of membership and therefore this reduces the justification for retaining the very highest tiers in a CARE scheme.

2.12. The AHDS noted the following points:

- A tiered contribution structure is no longer appropriate in a CARE pension scheme.

- As a result of the of January 2024 pay award for teachers, there would be no full-time teachers in the lowest contribution tier based of the current tier thresholds. The lowest tier on the proposed structure would apply only to members working part-time. Therefore, the rest of the workforce would be effectively subsidising part-time workers, who are not necessarily ‘low paid’ staff.

2.13. Of the options considered by SAB, the AHDS favoured options seven to nine, but ultimately the preferred option was option nine shown below.

Table 5: Option 9 – Single flat rate structure

Tier	Actual pensionable pay	Contribution Percentage Rate	Proportion of members in each tier	Change in contribution rate
-	All	9.6%	100%	-2.30% or -1.90% or -0.80% or -0.10% or +0.90% or +2.40%
	Contribution yield	**9.6%**		

2.14. This structure amends the existing contribution structure by amalgamating all tiers to a flat rate of 9.6% for all members. In the structure:

- There are no tiers
- Current contribution rates are adjusted by either an increase (+0.90% or +2.40%) or a decrease (-0.10% to -2.30%)
- There is a single contribution rate of 9.6%, in line with the target yield

Employer side position

2.15. The employer representative on the SAB are supportive of the following three principles and believe the new contribution structure should:

- Deliver an average member contribution of 9.6% of pensionable pay
- Not negatively impact the ability to recruit and retain effective teachers (including protection for the low-paid)
- Not increase the likelihood of members opting out

2.16. Employers have considered the range of options and provided initial written views which expressed support for options three, four, five and six.

2.17. Option three was favoured because it protects the lowest paid Teachers in the lowest Salary Band from any increased Pension contributions during this Cost-of-Living Crisis whilst sharing the burden of higher contributions amongst those that have moved up the Salary scales.

2.18. However, employers have considered the views put forward by the majority of member representatives and note their preference for option one. Employer representatives believe that option one delivers on the principles set out above and are content to support the majority member representative's recommendation.

3. Proposed changes to member contributions

3.1. This section sets out a proposed new member contribution structure for implementation from 1 April 2024.

3.2. The Scottish Government understands the concerns raised in the SAB's advice about the appropriateness of a tiered contribution structure in a CARE scheme, where pension is calculated based on earnings in each year of membership. However, we remain committed to a tiered structure in the STPS which is a mutual scheme. We believe a tiered structure provides protection for the lower paid and aims to maximise participation across the membership, which is aligned with the key principles set out by the majority of member representatives on the SAB and endorsed by employers.

3.3. As noted above, in their 2011 review of public service pensions, the IPSPC recommended the introduction of CARE public service pension schemes and also recommended that, in those CARE schemes, the differing characteristics of higher and lower earners should be addressed through tiered contribution rates. In addition, as previously set out, many members will still have a 'final salary link' applied to their accrued final salary STSS service, meaning that higher earners will continue to derive more value from that service than lower earning members who tend to experience steadier pay progression through their career.

3.4. The majority of member representatives on the SAB were in favour of an option which involved minimal change to both contribution increases and change to contribution tiers at this stage. This position was also supported by employer representatives on the SAB.

Scottish Government's preferred option

3.5. The Scottish Government remains keenly aware of continued high cost of living and the impact this may have on affordability of pension scheme membership for lower-paid members. Therefore, we are proposing to introduce the option one recommended by majority of member representatives on the SAB which is set out again in table 6 below.

Table 6 – Option 1: Proposed new contribution structure (contribution thresholds increased based on pay awards)

Tier	Actual pensionable pay	Contribution Percentage Rate	Proportion of members in each tier	Change in contribution rate
1	Up to £32,133	7.33%	30%	+0.13%
2	£32,134 to £43,257	8.86%	20%	+0.16%
3	£43,258 to £51,291	9.87%	27%	+0.17%
4	£51,292 to £67,975	10.58%	17%	+0.18%
5	£67,976 to £92,693	11.71%	5%	+0.21%
6	£92,694 and above	12.11%	1%	+0.21%
	Contribution yield	**9.6%**		

3.6. This option minimises any change to the existing structure and spreads the required increases in contribution rates, required to meet the 9.6% contribution yield, evenly across the membership by applying a single multiplier. In this proposal each existing tier is multiplied by 1.1079 resulting in the change in contribution rates noted in the table above.

3.7. The proposed structure assumes that the tiers are increased annually in line with the average teachers' pay award, rather than via CPI as is currently the approach. However, section four of this consultation document explores the merits of that approach and asks for stakeholder views.

3.8. While it is recognised that this option does marginally increase the differential between the contribution rates paid by the highest and lowest earners from 4.7% to 4.78%, this is still broadly comparable with the current tiering in the Teachers' Pension Scheme in England and Wales, and the majority of other UK public service pension schemes.

Impact of proposed structure on members' take-home pay

3.9. The table below shows the difference between gross contribution rates and the take-home pay impact for illustrative salaries under the existing and amended structure:

Table 7: Option 1 take-home pay impact

Illustrative 2023-24 pensionable pay	Current contribution rate	Revised contribution rate	Net contribution rate	Change in net 2024-25 annual pay
£20,000	7.20%	7.33%	5.86%	-£21
£40,000	8.70%	8.86%	7.00%	-£51
£50,000	9.70%	9.87%	5.72%	-£50
£60,000	10.40%	10.58%	6.14%	-£63
£80,000	11.50%	11.71%	6.79%	-£99
£100,000	11.90%%	12.11%	7.02%	-£117

3.10. The SAB will be asked to keep the contribution rates under review, monitoring membership and participation data to inform any future adjustments.

Q1. Do you agree or disagree with the proposed member contribution structure set out in this consultation document? If you disagree or don't know how to answer, please explain why.

4. Approach to increasing contribution thresholds

4.1. It was agreed during discussions around the 2015 pension scheme reforms, with both scheme employer and scheme member representatives, that although member contribution rates would not change, the contribution thresholds for each tier would increase annually in April, in line with the Consumer Prices Index (CPI) from the previous September. The aim is to ensure that the tiering of pay bands remains broadly in line with annual increases in teachers' pay and, thereby, avoid individual scheme members being moved into a higher contribution rate banding as a result of the national pay award in Scotland. There would otherwise be some circumstances where some scheme members' pay had increased as a result of the nationally agreed pay award, but where their take home pay (income from pay after all appropriate deductions) had decreased.

4.2. However, as noted above, the use of CPI as a means of uplifting the tiers has recently begun to negatively impact the contribution yield. This is because CPI is projected to be higher than the value of annual pay awards in the short term and as a result the tier thresholds will increase more than members' pay. This will result in some members dropping into a lower contribution tier and paying a reduced contribution rate, and therefore reducing the average contribution rate paid by the whole membership, below the required 9.6% yield.

4.3. With a view to addressing the negative impact on the yield, the preferred proposal in table 6 above is based on uprating the tiers in line with annual pay awards, rather than CPI. This means that increases in the tier thresholds match increases in pay and members broadly remain in the same tier following a pay increase, therefore not impacting on the contribution yield.

4.4. However, it should also be considered whether increasing contribution thresholds in line with annual pay awards is a suitable and practicable approach or whether retaining CPI as means of increasing the thresholds may be preferrable. In determining the preferred approach, it is important to consider the following principles:

- the need to promote stability in scheme administration and the collection of contributions.
- the need to ensure the fairest outcome for all members when applying the increase.
- the need to implement a system for increasing the thresholds which is transparent and can be delivered in a timely fashion.

With these principles in mind, we propose the following 2 options:

Option A: continue with the current process of automatically increasing thresholds in line with CPI

4.5. Uplifting thresholds in line with CPI has the benefit of being more straightforward than the alternative approach. This is because the uplift can be applied from 1 April each year based on the rate of CPI from the previous September. This provides a much greater period of time between the value of the index becoming known and it being applied to thresholds, compared to the process of applying an uplift in line with the value of the pay award as quickly as possible after the award is agreed.

4.6. CPI is also a singular figure which is applied evenly to all STPS member contribution thresholds. This avoids the potential added complexity that could occur with uplifting based on the pay award, as it is possible that the pay award may result in unequal uplifts to thresholds if, for example, the pay award is targeted at lower paid teachers. If the thresholds for the lower tiers of the member contribution structure are consistently uplifted by a greater percentage than the higher tiers, the overall member contribution structure would become compressed.

4.7. If the CPI approach was retained, the member contribution structure would be set for the implementation period of the 2020 scheme valuation (that is, 1 April 2024 to 31 March 2027) and contribution thresholds would be uplifted annually in line with CPI without the need for further amendments to scheme regulations. The performance of the contribution structure against the required member contribution yield would then be reviewed when finalising the 2024 valuation, which will happen in 2027.

Impact on the preferred contribution structure of using CPI to increase thresholds

4.8. Whilst it is understood that recently high CPI is somewhat of an anomaly, and it is expected to return to around the level of annual pay awards, it is estimated by GAD that continuing to uplift contribution thresholds by CPI will negatively impact the contribution yield. Therefore, there would require to be greater level of contribution increases than detailed in the proposed structure in table 6 above should CPI be retained as the mechanism for uplifting the contribution thresholds.

4.9. In order to meet the target yield, for example, the single multiplier added to all contribution tiers would have to be 1.202 rather then 1.0179. There would also be a requirement to freeze the top two contribution tiers in the amended structure, meaning the earnings thresholds for those earning £67,976 and above would not be increased annually during the implementation period 2024 to 2027. Consequently, any reduction in the yield as a result of tiers increasing by CPI, and more than the value of the pay award, would be countered by members moving up into the top tier if their salary increased above £67,976, as a result of future pay increases.

4.10. The impact on the preferred contribution structure of using CPI to increase thresholds is shown in table 8 below. The revised structure using CPI is shown as option 1b.

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Table 8 - Impact on the preferred contribution structure of using CPI

Tier	Actual pensionable pay	Current structure	Option 1 – single multiplier (x 1.0179)	Option 1b – single multiplier (x 1.0202)
1	Up to £32,133	7.20%	7.33% (+0.13%)	7.35% (+0.15%)
2	£32,134 to £43,257	8.70%	8.86% (+0.16%)	8.88% (+0.18%)
3	£43,258 to £51,291	9.70%	9.87% (+0.17%)	9.90% (+0.20%)
4	£51,292 to £67,975	10.40%	10.58% (+0.18%)	10.61% (+0.21%)
5	£67,976 to £92,693	11.50%	11.71% (+0.21%)	11.73% (+0.23%)
6	£92,694 and above	11.90%	12.11% (+0.21%)	12.14% (+0.24%)
Indexation of upper salary limits		Based on CPI for all tiers	Based on pay awards for all tiers	Based on CPI for tiers 1-4 only
Projected yield over 2024-2027		9.31%	9.6%	9.6%

4.11. The comparative take-home pay impact of the revised structure option 1b is shown in table 9 below.

Table 9 - Option 1b take-home pay impact

Illustrative pensionable pay (2023-24)	Current contribution rate	Option 1 – single multiplier, all tier limits indexed based on pay awards			Option 1b – single multiplier, upper limits for tiers 1-4 indexed based on CPI		
		Revised contribution rate	Change in gross 2024/25 annual pay	Change in net 2024/25 annual pay	Revised contribution rate	Change in gross 2024/25 annual pay	Change in net 2024/25 annual pay
£20,000	7.20%	7.33%	-£26	-£21	7.35%	-£30	-£24
£40,000	8.70%	8.86%	-£65	-£51	8.88%	-£73	-£58
£50,000	9.70%	9.87%	-£86	-£50	9.90%	-£101	-£59
£60,000	10.40%	10.58%	-£109	-£63	10.61%	-£127	-£74
£80,000	11.50%	11.71%	-£170	-£99	11.73%	-£186	-£108
£100,000	11.90%	12.11%	-£212	-£117	12.14%	-£243	-£133

Option B: manually uplift thresholds in line with the teachers pay award in Scotland

4.12. An alternative approach would be to annually amend the scheme regulations to manually uplift thresholds each year in line with the teachers pay award.

4.13. It is not appropriate to automate this process due to the potential added complexity of applying the pay award compared to CPI. For example, the value of the pay award may be applied differently to different pay bands if pay is targeted. This means the scheme would be required to adjust threshold increases to account for areas of higher pay increase. There would therefore be a corresponding lack of certainly going forward in this method, compared to CPI, where the legislation could clearly set out that a single CPI figure is to be applied all bandings and there would be no need for any added calculation or process in between the index figure and the impact on the actual thresholds.

4.14. While a multi year pay deal was recently agreed for teachers in Scotland and it is known what pay awards will be in advance, this is not always the case. There was also an agreement, as part of the most recent pay award, to change the pay settlement date to the 1 August annually, with effect from 1 August 2024. This presents some challenges when manually increasing the contribution thresholds in line with pay awards. The contribution thresholds are normally set in April for the whole scheme year and the yield is calculated on members remaining broadly in the same contribution tier for the whole scheme year. Adjusting the contribution thresholds in August every year would present administrative challenges for SPPA and for employers, particularly if the pay award was agreed late. If the tiers continued to be uplifted in April, in arrears, following the previous August pay award, this would lead to some members moving into a higher tier from August onwards as a result of the pay award and then moving back down in April once the tier thresholds were increased.

Q2. Do you agree or disagree that the annual increase in contribution tier thresholds should continue to be based on CPI or should be based on pay awards going forward? If you don't know how to answer, please explain why.

5. Employer Contribution Rate from 1 April 2024

Background

5.1. The Public Service Pensions Act 2013 introduced the legal framework for regular actuarial valuations of the public service pension schemes in order to effectively measure the costs of the benefits being provided. Valuations of public service pension schemes, including the STPS must be undertaken every four years. Each round of valuation follows updated HM Treasury directions provided for in regulations and are carried out by GAD on behalf of the Scottish Government, based on scheme data held as at March of the relevant year. These valuations determine the contribution rate to be paid into the scheme by employers.

5.2. The latest scheme valuation, the 2020 valuation, has been subject to consultation with the SAB as part of their statutory role to provide advice to Scottish Ministers on the desirability of changes to the scheme.

5.3. The 2020 valuation sets the new employer contribution rate for the period 1 April 2024 to 31 March 2027.

Changes to the employer contribution rate from 1 April 2024

5.4. The 2020 valuation confirmed that an increase in the employer contribution rate from its current rate of 23.0%, that has been in force since 1 September 2019, following the 2016 valuation, to 26.0% is required from 1 April 2024.

5.5. A scheme valuation assesses what each scheme needs now in order to meet future liabilities. The primary reason for employer contributions increasing is the UK Government's decision to reduce the SCAPE discount rate used in the valuation process. The SCAPE rate is set by HM Treasury and is the notional investment return on contribution income received. (SCAPE stands for superannuation contributions adjusted for past experience). The higher the discount rate, the quicker the notional assets grow, so the less is needed now. The lower the rate, the higher the level of needed now to meet those future liabilities and that feeds through to employer costs. Hence, a reduction in the discount rate feeds through to higher employer contributions.

5.6. HM Treasury ministers announced in March 2023 an intention to implement on 1 April 2024 the new employer rates for public service pension schemes arising from the 2020 round of valuations.

5.7. Consequently, we propose amending the 2015 regulations to replace the current employer contribution rate with the new rate of 26.0% effective from 1 April 2024.

Funding Support

5.8. In the Chief Secretary to the Treasury's statement announcing the change in the discount rate, the UK Government committed to provide funding for increases in employer contribution rates resulting from the 2020 valuations as a consequence of changes to the SCAPE discount rate. For the STPS valuation the full 3.0% increase is a consequence of these SCAPE discount rate changes.

5.9. The funding commitment is for employers whose employment costs are centrally funded through departmental expenditure. HMT has confirmed that, for devolved administrations, the Barnett formula will apply. The Scottish Ministers will make decisions on funding allocations once Barnett consequential amounts are confirmed. The funding commitment is for employers whose employment costs are centrally funded through departmental expenditure.

Q3. If you have any comments on the proposed increase to the employer contribution rate from 1 April 2024, please outline them.

6. Proposed draft amending regulations

6.1. To apply the proposed changes, we will need to amend scheme rules. The rules of the STPS are set out in regulations, which is a form of secondary legislation. Those rules can be amended or replaced by new regulations drawn up in accordance with the powers and requirements of the Public Service Pensions Act 2013 and the Superannuation Act 1972 as relevant.

6.2. The Teachers' Pension Scheme (Scotland) (Amendment) Regulations 2024 are presented for consultation in draft. These regulations would amend The Teachers' Pension Scheme (Scotland) (No 2) Regulations 2014, to implement a new employee contribution structure from 1 April 2023 and a new employee contribution rate from the same date.

Q4. Do you agree or disagree that the proposed draft amending regulations deliver the policy objectives. If you disagree or don't know how to answer, please explain why.

7. Equality Impact Assessment

7.1 A full Equality Impact Assessment will be published alongside this consultation document.

Q5. Are there any considerations and evidence that you think should be taken into account when assessing any equality issues arising as a result of the proposed changes?