

## Equality Impact Assessment - Results

Title Of Policy	Scottish Teachers' Pension Scheme (STPS): proposed changes to member contributions from 1 April 2024
Summary of aims and desired outcomes of the policy	To amend the contribution structure by increasing member contributions to ensure that required contribution yield is met.
Scottish Government Directorate	The Scottish Public Pensions Agency

### Executive Summary

1. This assessment measures the impact of policy proposals to implement changes to employer and member contributions in the Scottish Teachers' Pension Scheme (STPS).
2. The summary of the aims and desired outcome of the policy is to:
  - (a) Introduce a revised employer contribution rate following the outcome of the 2020 scheme valuation which is determined by HM Treasury Directions set out in UK Government primary legislation.
  - (b) Amend members' contribution rates with minimal change so that contribution rates would be increased equally across the scheme membership.
  - (c) Continue to increase the contribution tier thresholds annually in line with CPI.
3. The assessment finds that the policy changes will not disproportionately benefit or harm the protected groups of scheme members and will maintain the overriding principle of ensuring that the scheme remains a sustainable and valuable part of the reward package for teachers in Scotland.

## The Public Sector Equality Duty

4. The Public Sector Equality Duty ('PSED') was created by the Equality Act 2010 and is supported by the specific duties contained in the Equality Act 2010 (Specific Duties) (Scotland) Regulations 2012, as amended.
5. The PSED requires the Scottish Government to assess the impact of applying a proposed new or revised policy or practice. Scottish Ministers must have 'due regard' to the need to eliminate discrimination, advance equality of opportunity and foster good relations between people with different protected characteristics when carrying out their activities.
6. There are nine protected characteristics identified in the Equality Act 2010: (1) sex, (2) age, (3) disability, (4) race, (5) religion or belief, (6) gender reassignment, (7) pregnancy and maternity, (8) sexual orientation, (9) marital or civil partnership status.
7. The equality duty is an ongoing duty, and we will continue to consider and amend this assessment until the final regulation amendments are laid.

## Background

8. The Scottish Teachers' Pension Scheme (STPS) continues to be an integral part of the remuneration package for teachers in Scotland. The STPS 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.
9. 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 the Government Actuary's Department 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.
10. The latest scheme valuation, 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. 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.

11. While employers will contribute 26% of each member's pensionable earnings towards the cost of scheme benefits. Under the STPS framework agreement, members are required collectively to contribute 9.6% of pensionable pay across the whole scheme membership. This is known as the member contribution 'yield.'
12. 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' structure which spreads out the 9.6% requirement across the workforce, through a sliding scale of rates according to members' pensionable earnings. The aggregate amount collected across the membership adds up to 9.6%.
13. Since its implementation in 2015, the contribution structure has begun to underperform against the target yield. This is mainly because of the annual uprating of contribution tiers which have increased in line with the Consumer Price Index (CPI). As inflation has exceeded 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, which is now delivering 9.3%.
14. Public service pensions are executive 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.
15. As such, the SPPA published a public consultation which sought views on changes to member contributions, which are aimed to preserve participation in the scheme while protecting its substantial value for members in retirement.
16. The proposed changes involve retaining the current contribution structure which is tiered on the basis that lower earners pay lower contribution rates and higher earners pay increased contribution rates. six contribution tiers and spreading the required increases in contribution rates, required to meet the 9.6% contribution yield, evenly by applying a single multiplier to each tier.

17. The 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 Scheme Advisory Board and endorsed by employers.
18. The SPPA sought to reach agreement on the proposals through public consultation and consultation with key stakeholders through the statutory Scheme Advisory Board.

## Key Findings

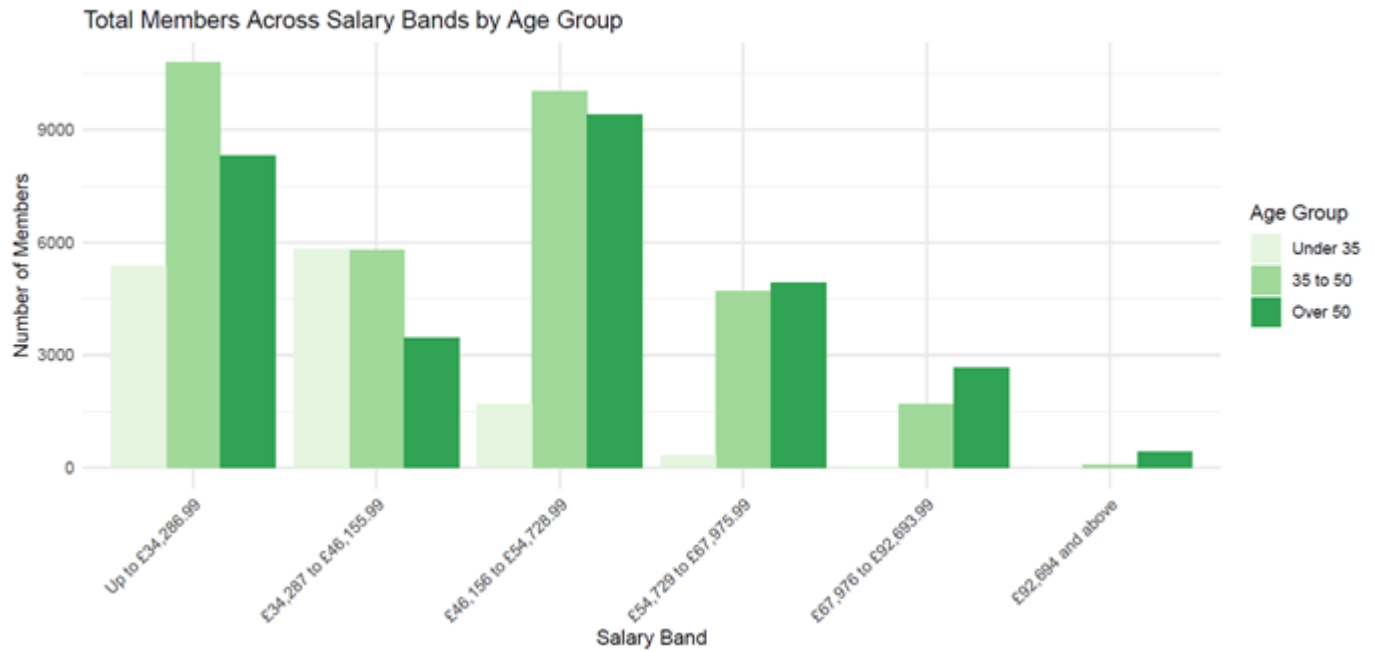
### Age

19. The proposed changes will apply the same single multiplier to all previous contribution rates. Therefore, all groups will be subject to the same multiplier on their current contribution rate. This approach is intended to minimise 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.
20. However, the impact of contribution rate changes on net pay will be different across the membership, depending on members' marginal rate of income tax. For example, members whose pension contributions are subject to the intermediate marginal rate of income tax in Scotland of 21% will have a proportionately greater reduction in net pay than those whose pension contributions are subject to the higher marginal rate of income tax in Scotland of 42%. While the tiering of the contribution structure mitigates this impact to some extent, with higher earners subject to a higher contribution rate, this does not mitigate this impact fully.
21. The impact of the contribution rate changes on 2024-25 net pay is illustrated in Table 9 of the [consultation document](#). This shows that a member earning £40,000 will have their annual net pay reduced by £58 in 2024/25, which is a similar amount to the £59 reduction for a member earning a higher salary of £50,000 and subject to a higher marginal rate of income tax. However, a fully progressive tiered structure, which retains alignment with the tax regime over time would be challenging to implement.
22. The salary thresholds for contribution tiers 5 and 6 will be frozen for the 2024-27 period, with no uplift to reflect CPI inflation. This means that members who are in contribution tiers 4 and 5 (with salaries of £54,729 - £92,693) are more likely to be awarded salary increases in future that

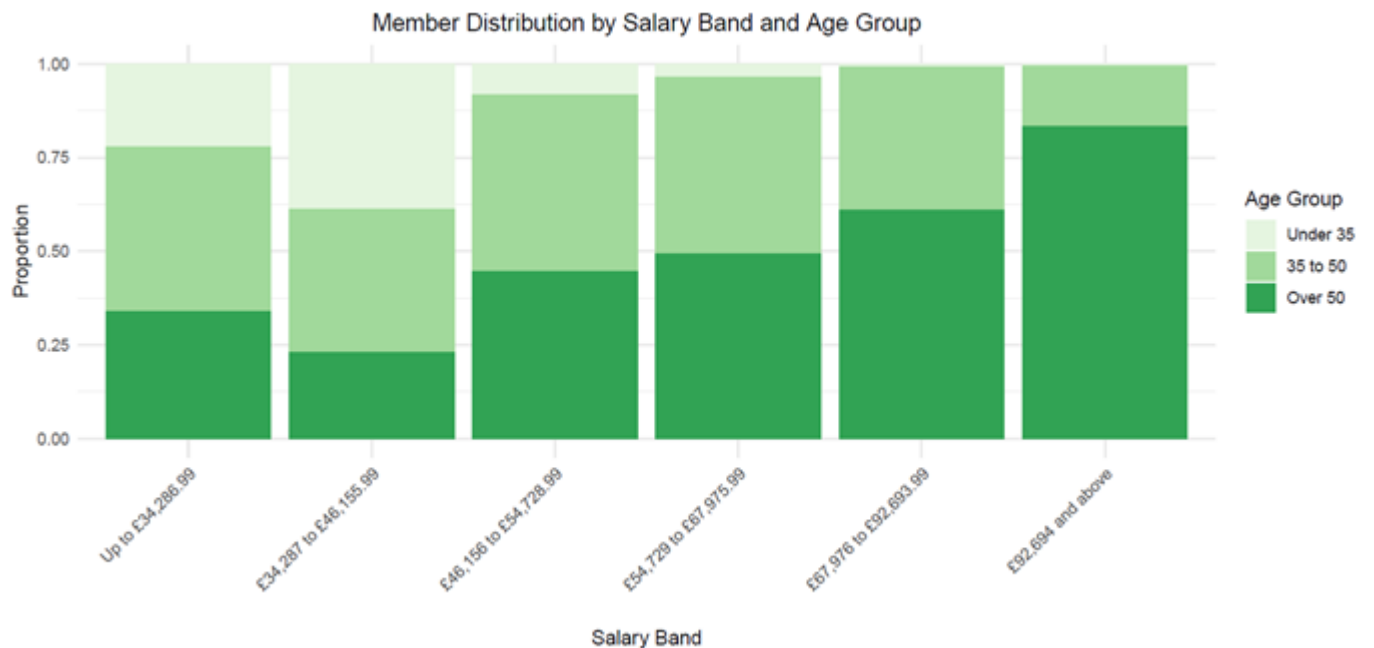
lead them to be into a higher contribution tier than those who are currently in contribution tiers 1-3. Those currently in contribution tier 6 are already subject to the maximum contribution rate, so will be unaffected by this issue.

23. The charts below show the number and proportion of members in each contribution tier, split by age group. This is based on the membership of the Scheme as at 31 March 2020, projected forward to 1 April 2024.

**Chart A**



**Chart B**

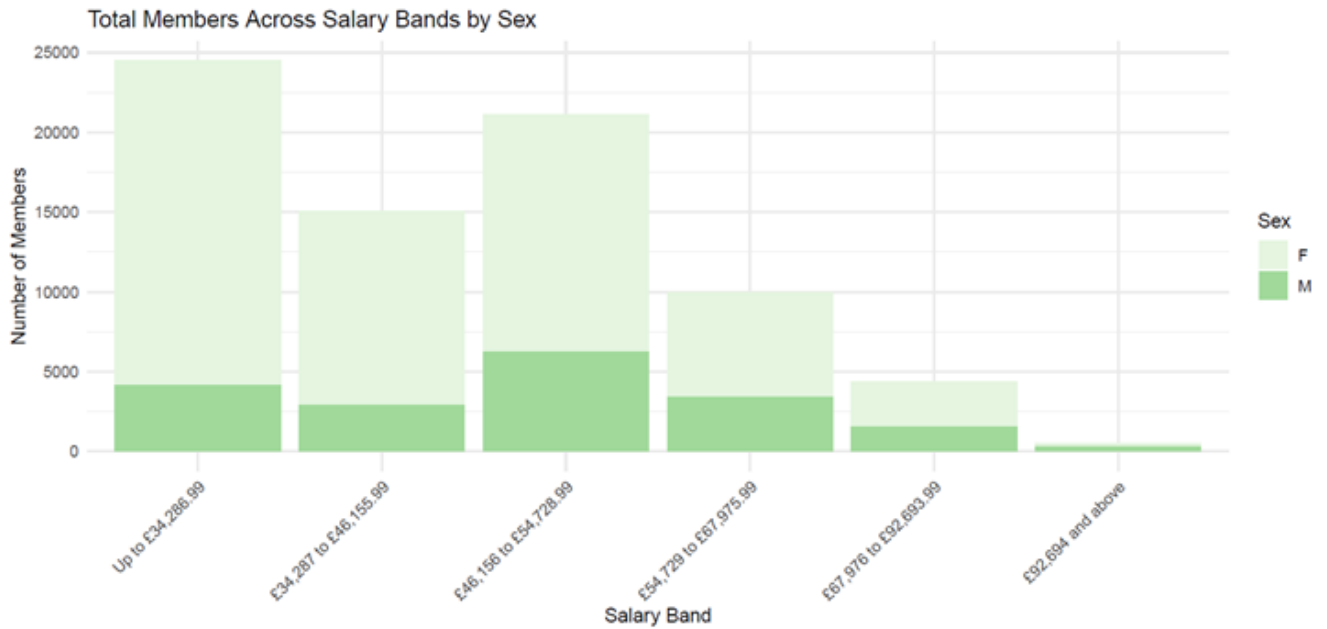


24. The charts show that younger members are more likely to be in lower contribution tiers than older members. For example, 22% of members in contribution tier 1 (with salaries under £34,287) are under age 35, despite making up 18% of the membership analysed. These members are likely to have their pension contributions subject to relief on the intermediate rate of income tax (which applies to salaries up to £43,662 for the 2024/25 tax year). As such, they will not receive the same level of tax relief on the uplifted contributions than higher earning colleagues whose pension contributions are subject to relief on the higher, advanced, or top rate of income tax, and who tend to be older.
25. On the other hand, older members are more likely to be in contribution tiers 4 and 5 (with salaries of £54,729 to £92,694), and therefore impacted by the freezing of the salary thresholds in contribution tiers 5 and 6 over the 2024-27 period. In these groups, 2% are under 35, 45% are between 35 and 50, and 53% are over 50 (compared with 18% of the overall membership being less than 35, 43% being between 35-50 and 39% being over 50).
26. All groups, regardless of pensionable pay or age, will be subject to the same multiplier on their current contribution rate. This approach is intended to minimise any change to the existing structure and therefore minimise the impact on any particular group. While this approach will not completely remove differences of impact between each group of members for the reasons outlined above, no group is disadvantaged based on age.

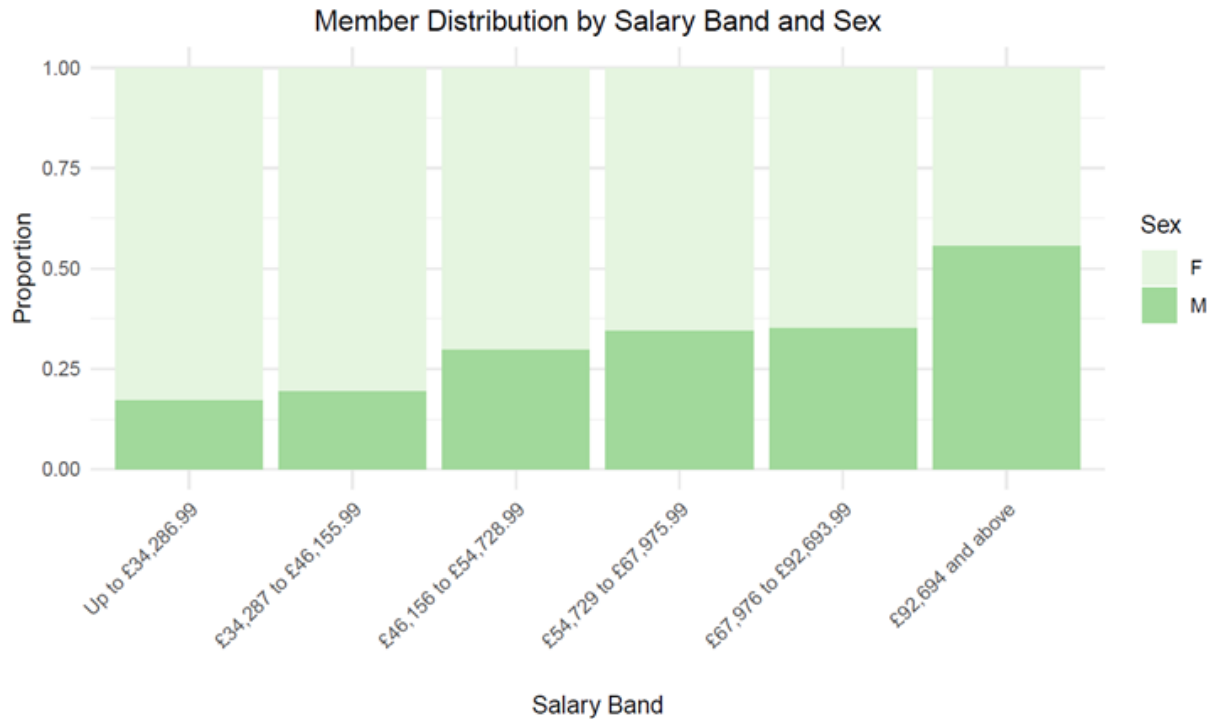
## Sex

27. The proposed increase to members contribution rates will apply to all members regardless of sex. However, the potential impact of the new proposals on male and female members has been considered.
28. It is important to note that sex and gender are two different concepts. A person's gender identity is not always the same as the sex assigned to them at birth, and some people may not identify as having a gender or as non-binary. Under the Equality Act 2010, gender reassignment is also a protected characteristic and the potential impact of these new proposals on this protected cohort has also been considered.
29. The charts below show the number and proportion of members in each contribution tier, split by sex. This is based on the membership of the Scheme as at 31 March 2020, projected forward to 1 April 2024.

**Chart C**



**Chart D**



30. The charts show that, while the membership is predominantly female, a higher proportion of male members tend to be in higher earning

positions. For example, 83% of members in contribution tier 1 (with salaries under £34,287) are female, despite making up 75% of the overall membership analysed. These members are likely to have their pension contributions subject to relief on the intermediate rate of income tax (which applies to salaries up to £43,662 for the 2024/25 tax year). As such, they will not receive the same level of tax relief on the uplifted contributions than higher earning colleagues whose pension contributions are subject to relief on the higher, advanced, or top rate of income tax, and where the proportion of males is higher.

31. On the other hand, male members are more likely to be in contribution tiers 4 and 5 (with salaries of £54,729 to £92,694), and therefore impacted by the freezing of the salary thresholds in contribution tiers 5 and 6 over the 2024-27 period. In these groups, 35% are male, despite making up only 25% of the overall membership analysed.
32. All groups, regardless of sex, will be subject to the same multiplier on their current contribution rate. This approach is intended to minimise any change to the existing structure and therefore minimise the impact on any particular group. While this approach will not completely remove differences of impact between each group of members for the reasons outlined above, no group is disadvantaged based on sex.

### **Pregnancy and Maternity**

33. There is no available data on this protected group in relation to teachers in Scotland or STPS membership. However, we have considered the potential impact of the proposals on members who have this protected characteristic as part of our analysis on sex.

### **Disability**

34. The proposed increase to members contribution will apply to all members across all contribution tiers regardless of disability. However, the potential impact of the proposals on members with disabilities has been considered.
35. There is some evidence to suggest that disabled people are more likely to work part-time. Data from the Office of National Statistics (ONS) on disability and employment shows that working disabled people were more likely to work part time than non-disabled people, with 32% of disabled people working part-time in comparison with 21.3% of non-disabled people.



36. The continuation of calculating contribution rates based on actual annual pensionable pay, rather than on whole-time equivalent pay, is therefore likely to continue to benefit people with disabilities who are working part-time.

### Race/Ethnicity

37. The proposed changes to members contribution will apply to all members regardless of their ethnicity. However, the potential impact of the new proposals on members of varying ethnic backgrounds has been considered.

**Table A** <sup>1</sup>Teacher ethnicity by sector, Scotland, 2023 (percentage of FTE)  
(Source: Scottish Government Summary statistics for schools in Scotland 2023)

**Figure 12 Teacher ethnicity by sector, Scotland, 2023 (percentage of FTE)**

Ethnicity	Primary	Secondary	Special	Centrally Employed	Total
White - Scottish	71	65	68	57	68
White - other British	20	22	19	25	21
White - other	2	4	6	5	3
Minority ethnic group	1	2	2	4	2
Not known	2	3	1	6	3
Not disclosed	3	4	4	4	3

38. Table A outlines the percentage breakdown of ethnicity within schools in Scotland. The largest ethnic group for teachers in Scotland is White – Scottish (68%) while 2% reported being from a minority ethnic group. Ethnicity was either not known or not disclosed for 6% of teachers.

<sup>1</sup> [Summary statistics for schools in Scotland 2023 - gov.scot \(www.gov.scot\)](https://www.gov.scot/publications/summary-statistics-for-schools-in-scotland-2023/pages/10.aspx)

39. As the proposed increase to contribution tiers applies equally to all members, we do not believe that members will be impacted adversely, or otherwise, by these proposals.

### **Religion or belief, sexual orientation, gender reassignment and marital or civil partnership status**

40. The information available is not detailed enough to analyse the characteristics with regards to religion or belief, sexual orientation, gender reassignment and marital or civil partnership status. However, as the increase to contributions to the STPS apply to all members equally and are based on pensionable pay, we do not believe these members are adversely, or otherwise, impacted by these proposals.

### **Recommendations and Conclusion**

41. The proposed member contribution tiers were set out in the consultation document, this included an increase on the contribution rates equally across scheme membership. These have been designed to ensure the required yield of 9.6% average member contribution is met while protecting the affordability of the scheme for the teachers in Scotland. This approach is intended to minimise any change to the existing structure and therefore minimise the impact on any particular group.

42. The proposal is to continue to uprate contribution tiers in line with CPI, while freezing the top two contribution tiers, will ensure that the contribution yield is met over the implementation period.

43. We therefore conclude that the changes to employer and member contribution rates proposed in the consultation do not give rise to indirect discrimination against the protected characteristics.