Scottish Teachers' Pension Scheme 2015

Framework Document

Scottish Government
December 2013

1. This document sets out a proposed revised Scottish Teachers' Pension Scheme to be introduced from April 2015.

2. The Scottish Teachers' Pension Scheme Negotiating Group (STPSNG) met on numerous occasions between April 2012 and August 2013 to attempt to develop a distinctly Scottish teachers' pension scheme which would meet the requirements of the UK Government's reform program and subsequent primary legislation. Ultimately, because of the many constraints placed on any proposed new scheme, it was not possible to deliver a design which would be acceptable to HM Treasury. Michael Russell MSP, Cabinet Secretary for Education and Lifelong Learning, wrote to stakeholders on 28 November explaining the need to ensure continuity of pension provision for teachers beyond April 2015. He confirmed that the terms of a new Scottish Teachers' Pension Scheme will, therefore, be based firmly on the design for the new Teachers' Pension Scheme for England and Wales, whilst also allowing for operational differences in Scotland. He has asked that the employer and staff side representatives on the negotiation group take forward the work of implementing this new scheme by April 2015, building on existing partnership working with Scottish Government and Scottish Public Pension Agency officials.

3. The new Scottish Teachers' Pension Scheme will commence from 1 April 2015. All rights and benefits accrued before April 2015 or up to the date the member transfers to the scheme following tapered protection (see b) below will be protected and will be linked to the member's final salary when they eventually retire. Transitional protection (see Annex A) will be put in place as follows:

a) Members will full protection ie those who were active scheme members and within 10 years of their NPA on 1 April 2012, will not see any change to their current benefit arrangements provided they do not have a break in service of more than 5 years. So benefits will continue to be determined on a final salary basis in the same way as now. An 'active scheme member' on 1 April 2012 includes those either:

- In service, ie paying contributions and accruing benefits, on 1 April 2012; and
- Those who were out of service on 1 April 2012 but still had accrued benefits in the scheme, and who return to paying contributions and accruing benefits within 5 years of having left service.

In the event of such a scheme member having a break of more than 5 years and rejoining the TPS, or drawing all their final salary benefits and then returning to pensionable service, they will enter the career average arrangements on 1 April 2015, or when they rejoin if that is later. Benefits would then be calculated in line with those for other transitional members.

b) Members of the STSS who were within a further 3 years and 6 months of their current Normal Pension Age (i.e. up to 13 years and 6 months from their NPA) at 1 April 2012, will eventually have to move to the new scheme no later than February 2022. How quickly they will have to do so is directly related to how far from NPA the member was at 1 April 2012 and is tapered on a linear basis: for every month that they were beyond 10 years from their current Normal Pension Age, they lose 2 months of the nominal 10 year protection. This also applies to those members out of service and who return within 5 years.

c) All active STSS members who as at 1 April 2012 were more than 13 years and 6 months from their NPA will move immediately to the new scheme on 1 April 2015.

d) The anticipated costs associated with the protection outlined above sit outside the costs of the new 2015 Teachers' Pension Scheme.

4. The main parameters of the new scheme are set out below.

a) a pension scheme design based on Career Average Re-valued Earnings (see FAQs);

b) an accrual rate of 1/57th of pensionable earnings each year;

c) revaluation of active members' benefits in line with CPI plus 1.6% per annum;

d) a Normal Pension Age equal to their State Pension Age, which applies both to active members and deferred members (new scheme service only). If a member's SPA rises, then NPA will do so too for all post 2015 service;

e) pensions in payment to increase in line with CPI;

f) benefits to increase in any period of deferment in line with CPI;

g) member contributions on a tiered basis to produce a total yield of 9.6% of total pensionable pay in the Scheme'.1 (subject to the detailed arrangements for determining future contribution structures set out in annex B);

h) optional lump sum commutation at a rate of 12:1, in accordance with HMRC limits and regulations;

i) survivors' pensions payable in accordance with current provisions;

j) lump sum on death in service of 3 times FTE salary;

k) ill-health retirement benefits to be based on the current ill-health retirement arrangements;

l) actuarially fair early/late retirement factors on a cost-neutral basis except for those with a NPA above age 65 who will have early retirement factors of 3% per year for a maximum of 3 years in respect of the period from age 65 to their NPA;

---

[1]The UK Government has determined that the average member contributions will be increased from 6.4% in 2011/12 in stages to 9.6% in 2014/15

m) an employer cost cap to provide backstop protection to the taxpayer against unforeseen costs and risks (see Annex B);

n) the Public Sector Transfer Club will continue and consideration will be given to the best way of operating it in the reformed schemes;

o) phased retirement arrangements which reflect those in the current scheme, with the additional option of a third drawdown of benefits after a member's 60th birthday;

p) abatement will not apply to service in the new scheme, but abatement rules for the current scheme will remain unchanged;

q) members who leave the scheme and return within 5 years will have their accrued service in the current (NPA60/65) scheme linked to their final salary at retirement;

r) flexibilities to allow members to elect to pay a higher contribution rate in return for a higher accrual rate for a particular year, at full member cost, within existing limits on additional pension; and

s) members who in the new scheme have a normal pension age higher than 65 will have an option in the new scheme to pay additional contributions to reduce or, in some cases, remove any early retirement reduction that would apply, if they retire before their normal pension age. Only reductions that would apply in respect of years after age 65 can be bought out and the maximum reduction that can be bought out is for 3 years (that would apply to a member with a Normal Pension Age of 68 or higher).

5. For the purposes of the reform process, HM Treasury (HMT) set a benchmark scheme for the Scottish Teachers' Pension Scheme (STPS). This was based upon the new 2015 Teachers' Pension Scheme 'TPS' for England & Wales as set out within the Proposed Final Agreement published by the Department for Education on 9 March 2012. The Scottish Government has agreed to adopt the England & Wales TPS as the proposed 2015 Scottish Teachers' Pension Scheme as defined within this Framework Document. Therefore, by definition, the new Scottish Teachers' Pension Scheme design meets the cost envelope set by HMT without requiring any further detailed actuarial analysis. Attached at Annex C is a letter from the Government Actuary's Department (GAD) confirming that the proposed scheme design is within the cost ceiling set by the UK Government.

6. This agreement also covers arrangements for an employers' cost cap, the treatment of NPA following further changes to SPA, and the UK Government 25 year guarantee. These are set out in more detail at Annex B.

7. The Scottish Government will consider the implications for schemes in Scotland of the recently announced UK Government Fair Deal provisions for compulsory transfer to non-government service providers.

8. An Equality Impact Analysis (EQIA) of this scheme design will be carried out. The Scottish Government is committed to completion of an EQIA covering the scheme design for a reformed Scottish Teachers' Pension Scheme. In taking this work forward, the Scottish Government will consider the likely equality impact of the scheme design changes and whether or how scheme design might be adjusted in furtherance of the three aims set out above. This process will involve full engagement with teachers' unions, employers and other stakeholders. Given the need to ensure that these assessments are robust, it is acknowledged that the assessment process will need to continue beyond the introduction of these reforms in 2015.

ANNEX A: DETAILS OF HOW TAPERED PROTECTION WILL APPLY

NPA 60						
Age at 1 April 2012		**Period of protection from 1/4/2015**	**Protection date ends**	**Age at end of protection**	
Years	Months			Years	Months
49	11	6 years 10 months	1 February 2022	59	9
49	10	6 years 8 months	1 December 2021	59	6
49	9	6 years 6 months	1 October 2021	59	3
49	8	6 years 4 months	1 August 2021	59	0
49	7	6 years 2 months	1 June 2021	58	9
49	6	6 years	1 April 2021	58	6
49	5	5 years 10 months	1 February 2021	58	3
49	4	5 years 8 months	1 December 2020	58	0
49	3	5 years 6 months	1 October 2020	57	9
49	2	5 years 4 months	1 August 2020	57	6
49	1	5 years 2 months	1 June 2020	57	3
49	0	5 years	1 April 2020	57	0
48	11	4 years 10 months	1 February 2020	56	9
48	10	4 years 8 months	1 December 2019	56	6
48	9	4 years 6 months	1 October 2019	56	3
48	8	4 years 4 months	1 August 2019	56	0
48	7	4 years 2 months	1 June 2019	55	9
48	6	4 years	1 April 2019	55	6
48	5	3 years 10 months	1 February 2019	55	3
48	4	3 years 8 months	1 December 2018	55	0
48	3	3 years 6 months	1 October 2018	54	9
48	2	3 years 4 months	1 August 2018	54	6
48	1	3 years 2 months	1 June 2018	54	3
48	0	3 years	1 April 2018	54	0
47	11	2 years 10 months	1 February 2018	53	9
47	10	2 years 8 months	1 December 2017	53	6
47	9	2 years 6 months	1 October 2017	53	3
47	8	2 years 4 months	1 August 2017	53	0
47	7	2 years 2 months	1 June 2017	52	9
47	6	2 years	1 April 2017	52	6
47	5	1 year 10 months	1 February 2017	52	3
47	4	1 year 8 months	1 December 2016	52	0
47	3	1 year 6 months	1 October 2016	51	9
47	2	1 year 4 months	1 August 2016	51	6
47	1	1 year 2 months	1 June 2016	51	3
47	0	1 year	1 April 2016	51	0
46	11	10 months	1 February 2016	50	9
46	10	8 months	1 December 2015	50	6
46	9	6 months	1 October 2015	50	3
46	8	4 months	1 August 2015	50	0
46	7	2 months	1 June 2015	49	9

NPA 65					
Age at 1 April 2012		**Period of protection from 1/4/2015**	**Protection date ends**	**Age at end of protection**	
Years	Months			Years	Months
54	11	6 years 10 months	1 Feb 2022	64	9
54	10	6 years 8 months	1 December 2021	64	6
54	9	6 years 6 months	1 October 2021	64	3
54	8	6 years 4 months	1 August 2021	64	0
54	7	6 years 2 months	1 June 2021	63	9
54	6	6 years	1 April 2021	63	6
54	5	5 years 10 months	1 February 2021	63	3
54	4	5 years 8 months	1 December 2020	63	0
54	3	5 years 6 months	1 October 2020	62	9
54	2	5 years 4 months	1 August 2020	62	6
54	1	5 years 2 months	1 June 2020	62	3
54	0	5 years	1 April 2020	62	0
53	11	4 years 10 months	1 February 2020	61	9
53	10	4 years 8 months	1 December 2019	61	6
53	9	4 years 6 months	1 October 2019	61	3
53	8	4 years 4 months	1 August 2019	61	0
53	7	4 years 2 months	1 June 2019	60	9
53	6	4 years	1 April 2019	60	6
53	5	3 years 10 months	1 February 2019	60	3
53	4	3 years 8 months	1 December 2018	60	0
53	3	3 years 6 months	1 October 2018	59	9
53	2	3 years 4 months	1 August 2018	59	6
53	1	3 years 2 months	1 June 2018	59	3
53	0	3 years	1 April 2018	59	0
52	11	2 years 10 months	1 February 2018	58	9
52	10	2 years 8 months	1 December 2017	58	6
52	9	2 years 6 months	1 October 2017	58	3
52	8	2 years 4 months	1 August 2017	58	0
52	7	2 years 2 months	1 June 2017	57	9
52	6	2 years	1 April 2017	57	6
52	5	1 year 10 months	1 February 2017	57	3
52	4	1 year 8 months	1 December 2016	57	0
52	3	1 year 6 months	1 October 2016	56	9
52	2	1 year 4 months	1 August 2016	56	6
52	1	1 year 2 months	1 June 2016	56	3
52	0	1 year	1 April 2016	56	0
51	11	10 months	1 February 2016	55	9
51	10	8 months	1 December 2015	55	6
51	9	6 months	1 October 2015	55	3
51	8	4 months	1 August 2015	55	0
51	7	2 months	1 June 2015	54	9

Annex B: Future increases to State Pension Age (SPA)

1. On entry to the new scheme each member will have an individual Normal Pension Age (NPA) which will be equal to their State Pension Age (SPA) at that time. If the member's State Pension Age increases in the period before they retire and draw benefits their Normal Pension Age will also increase. Benefits earned in the new scheme will be calculated by reference to a member's State Pension Age/Normal Pension Age at the time they retire and draw benefits. This will apply to all post 2015 service.

2. The UK Government believes that the SPA should continue to keep pace with increases in longevity to ensure fairness between generations, and is considering the process that will be used to determine future changes to the SPA. This will be based on demographic evidence and allow for the views of interested parties to be considered.

State Pension Age reviews

3. The UK Government intends to adopt a structured framework within which to consider changes to State Pension age which will aim to maintain the proportion of adult life spent in receipt of the state pension. This will be achieved by carrying out a review every five years informed by two reports.

- In the first, the Government Actuary's Department will be asked to analyse whether or not individuals reaching their State Pension age in the future will spend a specified proportion of their adult life in receipt of state pension and report on what measures, if any, might be taken to achieve that proportion.

- The second will be produced by an independently-led review body. It will consider wider factors including evidence of variations in life expectancy, trends in healthy life expectancy, alternative ways of measuring life expectancy, the impact on the labour market and the means by which the state pension costs of rising life expectancy can best be shared fairly among the generations.

4. The UK Government will then publish a report on the outcome of the review; the first of which will be published before 7 May 2017. Any decision to change State Pension Age would continue to require primary legislation and therefore parliamentary approval.

5. As recommended by Lord Hutton, the link between Normal Pension Age in the public service schemes and State Pension Age will be kept under review to determine whether the link between the two continues to be appropriate.

6. The Scottish Government has stated that, should independence be achieved following the referendum in September 2014, it would establish an Independent Commission on State Pension Age which would consider the appropriate rate of increase for the SPA for Scotland in the long term.

Employer Cost Cap

7. An employer cost cap will be introduced to cover unforeseen events and trends that significantly increase scheme costs. The employer cost cap is intended to provide backstop protection to the taxpayer and will be based on already agreed cap and share principles. This

means that changes to contribution rates due to ‘member costs’ will be controlled by the cap. Financial cost pressures, including changes to the discount rate, will be met by employers. The employer cost cap will be symmetrical so that, if reductions in member cost fall below a ‘floor’, members’ benefits will be improved.

8. Scheme valuations will take place periodically to assess how the cost of the scheme has increased or reduced. In the event that member costs drive the cost of the scheme above the cap or below the floor, there will be a period of consultation with relevant groups, before changes are made to bring costs within the cap and floor. If agreement cannot be reached through consultation, the accrual rate will be adjusted as an automatic default.

9. The employer cost cap ceiling will be set at 2% above and the floor set 2% below the employer contribution rates calculated following a full actuarial valuation ahead of the introduction of the new scheme in 2015.

10. The cost cap will include the impact of changes in costs such as actual or assumed longevity, changes to career paths or the age and gender mix of the workforce. These costs cover all schemes (old and new) and all types of service (past and future) of active, deferred and pensioner members. Changes in actual and assumed price inflation and the discount rate will be excluded from the cost cap.

11. Further details on the operation of the policy of the cost cap will be clearer once HM Treasury directions have been finalised.

Employee Contribution Rates

12. The structure of contributions in the new 2015 scheme will be subject to further review in 2014 taking account of key policy priorities and the need to ensure that the structure delivers the required yield of 9.6% of total pensionable pay in the Scheme.

The UK Government 25 year Guarantee

13. The UK Government has stated that no changes to scheme design, benefits or contribution rates should be necessary for 25 years outside of the processes agreed for the cost cap. To give substance to this, a number of provisions have been included on the face of the Public Service Pensions Act to ensure a high bar is set for future Governments to change the design of the schemes. The Chief Secretary to the Treasury also gave a commitment to the UK Parliament that there would be no further reform of public service pensions for 25 years.

Impact of Working Longer

14. A working group has been set up between the Education Directorate of Scottish Government, STPS employers and the teachers’ unions to consider the impact which working longer may have on teachers, both as individuals and as providers of education. The terms of reference of this review are included at Annex D.

Annex C: Letter from Government Actuary's Department

Reference: SPPA / STSS – 3412-00003

Jim Preston
Senior Policy Manager
Scottish Public Pensions Agency
7 Tweedside Park
Tweedbank
Galashiels
TD1 3TE

25 November 2013

Dear Mr Preston

Verification report for the Scottish Teachers' Superannuation Scheme (STSS) post-2015 reforms

This letter has been prepared in response to your request for the Government Actuary's Department (GAD) to provide a verification report confirming that the new design for the STSS to be implemented in April 2015 falls within the agreed cost envelope.

Background: the pensions reform and verification process in England and Wales

Following the publication of the final report of the Independent Public Service Pensions Commission, chaired by Lord Hutton, on 10 March 2011, it was recommended that public service pension schemes in the UK should be reformed.

In England & Wales, HM Treasury published a 'Reference Scheme' which was intended to be an acceptable replacement for each of the existing public service schemes. Departments were free to adopt schemes which were different from the Reference Scheme, so long as the expected cost of running the variant scheme did not exceed a cost envelope. The cost envelope is the cost of the Reference Scheme calculated using data, methodology and assumptions which were approved by HM Treasury.

The Department of Education (in consultation with stakeholders) chose not to adopt the Reference Scheme for teachers in England & Wales and instead proposed a variant scheme. GAD was commissioned to prepare a verification report to confirm that the new scheme fell within the cost envelope, that is, the value of the variant scheme is not higher than the value of the Reference Scheme, calculated using the specified data, methodology and assumptions. This verification report was published on 9 March 2012, and is Annex E of the Teachers' Pension Scheme proposed final agreement (PFA):

https://www.gov.uk/government/publications/teachers-pension-scheme-proposed-final-agreement

Verification report -
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/194090/Verification_of_final_scheme_design.pdf

The verification process in Scotland

Following publication of the variant scheme in England & Wales (in the proposed final agreement document), this scheme was then set by HM Treasury as the benchmark scheme for STSS staff in Scotland. A similar process was set to establish a cost envelope as had been adopted in England and Wales. That is, a variant scheme could be adopted provided it cost no more than the benchmark scheme, valued using data, methodology and assumptions approved by HM Treasury.

Scottish Government held a number of meetings with staff and employer representatives but no agreement was reached on a variant scheme. Scottish Government has decided that the benchmark scheme (that is, the same scheme as set out in the proposed final agreement for England & Wales) should be implemented for STSS staff in Scotland.

Since the benchmark scheme is being implemented, by definition it meets the specified cost envelope (of costing no more than the benchmark scheme).

Yours sincerely

Ken Kneller

Ken Kneller

Chief Actuary Pensions, Edinburgh

Annex D: Teachers' Working Longer and Early Retirement Working Group

The remit has been discussed by the Group but is still subject to formal agreement at the next meeting.

REMIT AND MEMBERSHIP

Name of the group

1. The group will be known as the Teachers' Working Longer and Early Retirement Working Group.

Scope

2. The Working Group's remit is to consider whether an effective and affordable workforce planning mechanism can be developed which would mitigate the anticipated future increases to State and Normal Pension Ages which will otherwise require members of public service pension schemes from 2015 to work to 65 and beyond.

3. The Group will initially explore whether workforce planning measures such as Teacher Refresh, or any of the existing elements of the Scottish Teachers' Pension Scheme which enable early or partial retirement, would provide appropriate mechanisms. The Group will be separate from the Workforce Planning Advisory Group which advises on student teacher intake.

4. The Group will note that mechanisms which are part of the Scottish Teachers' Superannuation Scheme must be reflected in the governing Regulations which in turn require HM Treasury approval. Such mechanisms will be required to be implementable on an actuarially neutral basis in order to obtain such approval.

5. The scope of the Group's considerations will initially be limited to teachers employed by local authorities. The Group will wish to reflect on the role of employers in the application of relevant mechanisms on an individual basis.

Membership

3.1 The Group's membership will be drawn from the main recognised employee representative organisations, the Scottish Government and local authority employers' representatives. The Scottish Government will chair the Group.

3.2 The teaching organisations will have 7 representatives drawn from the following associations, relative to membership.

(a) Educational Institute of Scotland (EIS) [2]
(b) Scottish Secondary Teachers' Association (SSTA) [1]
(c) National Association of School Teachers/Union of Women Teachers (NASUWT) [1]
(d) Voice [1]
(e) Association of Head Teachers and Deputes in Scotland (AHDS) [1]
(f) School Leaders Scotland (SLS) [1]

6. The employers' side will be represented by 2 officials from COSLA.

7. The Scottish Government will be represented by Learning Directorate who will chair and provide administrative support to the group.