SCOTTISH PUBLIC PENSIONS AGENCY

TEACHERS' PENSION SCHEMES
2019/01

WHO SHOULD READ:	**Chief Executives** **All HR and Payroll Managers** **Pension Administration Staff** **Teachers' Unions and representatives**
ACTION:	**To read and circulate to interested parties and members of the Scottish Teachers' Pension Scheme**
SUBJECT:	**Employer contribution rates from 1 April 2019**

The purpose of this circular is to advise employers and interested parties about the employer contribution rate to be applied from 1 April 2019

Key information in this circular:

1. To confirm employer contributions will rise to 22.4 % from 1 April 2019 subject to the necessary regulations being approved by Parliament.

2. The current employer contribution rate of 17.2% will continue to apply until 31 March 2019.

Background

Public service pension schemes, including the Scottish Teachers' Pension Scheme, are subject to regular valuations to set employer contributions and measure any movement in the employer cost cap. Both the latest valuation and employer cost cap have been subject to discussion with the Scheme Advisory Board (SAB). The SAB is made up of representatives of employers and members and provides advice to the Scottish Ministers on the desirability of changes to the design of the scheme and the implication of other policy issues.

The valuation confirmed that an increase in the employer contribution rate from its current rate of 17.2% to 22.4% is required from 1 April 2019. The employer cost cap was also breached, requiring adjustments to be made to scheme benefits to reset the cap to its original value. Agreement was reached that the breach in the employer cost cap would be rectified by an improvement in the scheme accrual rate.

A consultation setting out the new employer contribution rate and the proposed change to the scheme accrual rate was issued on 18 December 2018 to teachers' employers, Scottish colleges and higher education establishments, independent schools, teachers' unions and relevant Scottish and UK Government Departments.

Since that consultation was issued the Chief Secretary to the Treasury made a written statement on 30 January confirming that:

1. The planned increases to public service pension schemes' employer contribution rates will still go ahead from 1 April 2019.

2. The planned scheme improvements arising from the employer cost cap breach will be paused. This is because of the December 2018 Court of Appeal ruling that the "transitional protections" provided to members close to retirement as part of the 2015 reforms were unlawful discrimination. Although the UK Government is seeking permission to appeal this decision, the uncertainty of the potential costs this case may have on public service schemes means the cost cap rectifications for all schemes are paused. The draft regulations issued for consultation in December have been amended to reflect this change.

The principle reason for employer contributions increasing is the UK Government's decision to reduce the discount rate used in the valuation process. A scheme valuation assesses what each scheme needs now in order to meet future liabilities. 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 funding 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.

In announcing the change in the discount rate the UK Government confirmed it would provide some additional funding to support schemes in meeting the higher employer contribution rate. The extent of that funding is still to be confirmed by HM Treasury and will be set out in the UK Government Spring Statement on 13 March 2019.

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Contact information

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