POLICY NOTE

THE TEACHERS' SUPERANNUATION AND PENSION SCHEME (SCOTLAND) AMENDMENT REGULATIONS 2019

SSI 2019/48

The above instrument was made in exercise of the powers conferred by section 9 and 12 of and Schedule 3 to the Superannuation Act 1972, section 1(1) and (2)(d) of, and paragraph 4 (b) of schedule 2 of, the Public Service Pensions Act 2013. It is subject to negative procedure.

Employer contributions are set by regular valuations of the scheme. The latest valuation, applying HM Treasury Directions, provides for an increase in the current employer contribution rate of 17.2% to 22.4% applicable from 1 April 2019. This instrument provides for this change and also makes minor adjustments to The Teachers' Superannuation and Pension Scheme (Additional Voluntary Contributions) (Scotland) Regulations 2017.

Policy Objectives

The purpose of this instrument is to update and amend The Teachers' Superannuation (Scotland) Regulations 2005, The Teachers' Pension Scheme (Scotland) (No.2) Regulations 2014 and The Teachers' Superannuation and Pension Scheme (Additional Voluntary Contributions) (Scotland) Regulations 2017. The principal aim of this instrument is to introduce the revised employer contribution rate from 1 April 2019. The amendments to the AVC regulations are minor for administration purposes. Reserved Primary legislation and HM Treasury Directions set out the proces to assess the employer contribution rate for the Scottish Teachers scheme and the date it should be applied from.

Consultation

Discussions on the scheme valuation were undertaken with the Scheme Advisory Board (SAB). The SAB provides advice to Scottish Ministers on the desirability of changers to the design of the scheme and the implementation of other policy issues. It is made up of employer and member representatives from across the service. The Scottish Public Pensions Agency (SPPA) also conducted a consultation from 18 December 2018 to 11 January 2019 on draft regulations implementing these changes. That consultation included an increase in the accrual rate for members of the Scottish Teachers' Pension Scheme 2015 but this change has been deferred subject to the outcome of a UK Government appeal to the Court of Appeal. The appeal relates to the age based transitional protections provided to members when the 2015 reforms were introduced. Details of this deferment were set out in a written statement issued by the Chief Secretary to the Treasury on 30 January 2019.

Those consulted were all teachers' employers (including all 32 Scottish local authorities), Scottish Colleges and Higher Education establishments, Independent Schools, Teachers'

Unions and relevant Scottish and UK Government Departments. The consultation received 110 responses of which 29 had comments.

The key messages from Local Authority employers' are that employers' contributions will rise significantly at a time Local Authority resources are under significant pressure with there being no capacity to absorb any of the substantial increases and if the contribution increase cost is not covered on a recurring basis this will result in a reduction in front line services due to further spending reduction and most likely more job losses. Similar concerns were raised by respondents covering employers from all sectors of the scheme.

The increase in employer contributions is due principally to a change in the discount rate used in unfunded public service pension scheme valuations. The UK Government announced in September 2018 it intended to reduce the current disccount rate of CPI + 2.8% to CPI +2.4% for the 2016 valuations. This change was confirmed in the Budget statement 29 October 2018. The 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.

There is concern across the sector regarding how this increase will be funded. In announcing the change to the discount rate in october 2018 HM Treasury confirmed it would provide funding to cover the additional costs for 2019/20. The extent of that funding remains under discussion with the Scottish Government pressing the UK Governemnt for full funding of the increase.

Impact Assessments

The impact of this change will not be known until final details are confirmed regarding the level of HM Treasury funding. At that point SPPA plan to complete a Business and Regulatory Impact Assessment.

Financial Effects

This instrument implements an increase in scheme employer contributions from the current rate of 17.2% to 22.4% which will apply from 1 April 2019. The estimated cost of that increase is £130m for 2019/20 and discussions remain ongoing with HM Treasury regarding the additional funding it will provide to cover those costs

Scottish Public Pension Agency
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