

Pension Schemes Summary

Following the Independent Review of Public Service Pensions in 2011, the UK Government brought forward changes to all public sector pensions schemes to make these schemes "sustainable, affordable and fair." In 2013 the new pension arrangements proposed to align the retirement age in these schemes with the state retirement age. Despite lengthy negotiations where alternative options were sought, it was reluctantly agreed that the proposed scheme offered members the best option within the costs allocated. As a consequence the age at which members of the Scottish Teachers' Superannuation Scheme (STSS) can retire in future will be directly linked to their State Pension Age (SPA).

The STSS ended, therefore, on 31 March 2015. However, those who were aged 50 and in the scheme with a Normal Pensionable Age (NPA) of 60 and those who were aged 55 and in the scheme with the NPA of 65 as at 1 April 2012, will remain in their original scheme with full protection until they choose to retire. Those who were in the NPA 60 scheme and aged between 46 years and 7 months and 50 at that time will have some "tapered" protection (see Appendix 1), as will those who were aged between 51 years and 7 months and 55 and in the NPA 65 scheme (see Appendix 2). This means that they will remain in their original scheme for a period of time before transferring to the new scheme. Those who do not fall into the above categories, i.e.

- those who were aged 46 years and 6 months and below and in the NPA 60 scheme
- those who were aged 51 years and 6 months and below and in the NPA 65 scheme
- all new entrants from 1st April 2012

will have transferred into the new Career Average scheme from 1st April 2015.

Main Changes

The new scheme introduces a number of significant changes

- Retirement Age – will now be in line with the state retirement age
- Career Average – For each year worked 1/57 of earnings for that year will be placed in a pension pot. (This rate is currently 1/80 for NPA60 and 1/60 for NPA 65.)
- There is a provision for a faster accrual rate of 1/45, 1/50 or 1/55 if members wish to accelerate their pension by paying more.
- The pot will increase annually in line with the Consumer Price Index (CPI) plus 1.6%

In line with the current rules members will still be able to choose to commute some of their pension into a lump sum at the rate of £1 of pension for every £12 of cash, up to the limit stipulated by HMRC. The NPA 60 scheme has an automatic lump sum so there is a lower limit of the commutable amount.

Ill-health Retirement, Dependants' Benefits and Death in Service Benefits will still be in place.

Scheme Governance

From 1 April 2015 Scottish Government has put in place a Pension Scheme Board to oversee the operation of the scheme. The Scottish Teachers' Pensions Scheme Board will have 6 employer representatives and 6 representatives nominated by the trade unions. In addition, there will be a Scottish Teachers' Pension Scheme Advisory Board with trade union representation, to advise the Board Chair on future Scheme design. John Crichton, Professional Officer, has kindly agreed and been accepted to be a member of the Advisory Board. Valuations of the Scheme will be required by statute to take place periodically to inform future decisions on contribution rates and Scheme benefits.

Contribution Rates

The contribution rates in the STSS were set at 6.4% in 2007 for employees. Scottish employers paid 13.5% rising to 14.9% from 1 April 2009.

As part of the changes to the scheme, employee contributions rose on a tiered basis to an average of 9.6% over 3 years from 1 April 2012. During that period there was no change to the employer's contribution rate. From 1 September 2015 the employer's contribution rate shall rise to 17.2%.

Under STSS the tiered contribution arrangements (2012-present) part time employees paid contributions based on Full Time Equivalent salary. This was because final salary arrangements were on FTE regardless of the number of hours actually worked. However, with the introduction of CARE arrangements part time employees' contributions will be based on actual salary. This shall also be the case for those with "transitional" or "tapered" protection.

Schemes comparison

Below is a summary of the main differences between the schemes:

Feature	NPA 60 (STSS)	NPA 65 (STSS)	STPS 2015
Scheme Design	Final Salary Scheme	Final Salary Scheme	Career Average Revalued Earnings (CARE) Revalued annually by CPI + 1.6% (CPI only for preserved benefits)
Accrual Rate	1/80 + 3/80 lump sum	1/60	1/57
Tax Free Cash*	Commute up to 19.64% on £1:£12 basis	Commute up to 35.71% of pension on a £1:£12 basis	Commute up to 35.71% of pension on a £1:£12 basis
Tiered Contributions	Based on FTE salary	Based on FTE salary	Based on actual earnings
Pensions in Payment Index	Consumer Price Index	Consumer Price Index	Consumer Price Index
Family Benefits	Pensions payable to widow, widower, civil partner nominated partner and children dependent on qualifying service	Pensions payable to widow, widower, civil partner nominated partner and children dependent on qualifying service	Pensions payable to widow, widower, civil partner nominated partner and children dependent on qualifying service
Death in Service	3x Pensionable Salary	3x Pensionable Salary	3x Full Time equivalent salary
Ill Health Retirement	2 tier system Requirement to provide evidence of permanent incapacity	2 tier system Requirement to provide evidence of permanent incapacity	2 tier system Requirement to provide evidence of permanent incapacity
Increasing Benefits	Purchase of additional pension in £250 blocks	Purchase of additional pension in £250 blocks	Facility to purchase faster accrual (1/55, 1/50 or 1/45) on an annual basis

*Allows members to access 25% of pension pot as per HMRC rules.

Pensionable Salary

In the STSS final salary scheme (NPA 60 or 65) your pensionable salary is the higher of either the salary received in your last 365 days before retirement or the average of your best consecutive 3 years in the last 10 years revalued by the annual pension increase factor. Pensions are revalued from a date in April each year.

In the STPS 2015 CARE scheme your benefits build up based on your pensionable salary and the annual accrual rate. The standard accrual rate is $1/57 + (\text{CPI} + 1.6\%)$.

The pension increase factor is currently based on the Consumer Price Index (CPI) figure in the September prior to the increase.

Please note that if you receive a salary increase of more than 10% in your last 3 years of service your pensionable salary may be capped. This does not apply to members of the CARE scheme or if the 3 year average is used to calculate your benefits.

Contribution Rate

Employees

Tiered contributions were introduced from 1 April 2012. Your contribution rate is currently linked to your full time equivalent salary.

From 1 April 2015, with the move to the Career Average Scheme your contribution will be linked to your actual salary as per the following table.

Salary Band	Contribution Rate
Up to £25,999	7.2%
£26,000 - £34,999	8.7%
£35,000 - £41,499	9.7%
£41,500 - £54,999	10.4%
£55,000 - £74,999	11.5%
£75,000 +	11.9%

For Example

- If you work full time and earn £34,887 (point 6) your percentage contribution will be 8.7%.
- If you work part time on a salary of £34,887 your contribution rate will be 7.2%.

Employers: The Employer contribution rate will increase from 14.9% to 17.2% on 1 September 2015.

DEATH IN SERVICE

Members of the Final Salary Scheme (NPA 60 or 65)

If a teacher dies whilst in active service, i.e. contributing to the pension scheme, a lump sum equivalent to 3 times pensionable salary is payable to their nominated person/s to receive this. An SPPA Death Grant nomination form should be completed and returned to them. You will also be treated as a "death in service" if you die within 2 months of leaving active service.

Members of the CARE Scheme

If a teacher dies whilst in active service, a lump sum equivalent to 3 times their full time equivalent contributing salary rate is payable to their estate.

ILL HEALTH RETIREMENT

There will be no change to the current qualification rules. There will still be two tiers of retirement:

- partial incapacity - where the value of the pension to date will be paid without an actuarial reduction
- total incapacity – where the value of the pension will be enhanced by up to half the difference between the current age and normal pension retirement age.

DEPENDANTS BENEFITS

There will be no change from the current arrangements.

RETURNING TO WORK AFTER RETIREMENT

Members of the NPA 60/65 schemes who return to work after retiring on age grounds or under the Premature Retirement Compensation (PRC) Regulations have a limit to the amount you can earn in re-employment. It is roughly the difference between your pensionable salary at retirement and the pension you are receiving. This includes any pension paid by your employer but not your State Pension. If you earn over your limit the SPPA will seek to claw this back. This is known as "abatement".

There will be no abatement provision in the CARE scheme. This means there are no tax implications from working as a teacher after retirement.

RETIREMENT BUYOUT OPTION

Members in the STPS 2015 who have a retirement age over 65 will have an option to make additional contributions to "buy out" the actuarial reduction in their benefits for the period over this age. The actuarial reduction for each year after 65 will be 3%.

Members need to decide on whether to exercise this option within 6 months of joining the scheme.

RETIREMENT OPTIONS

Winding Down

This is an option for members within 4 years of retirement who meet certain rules to reduce their hours in the lead up to retirement. Final Pensionable Salary is based on the salary in the 365 days prior to entering Winding Down.

Actuarially Reduced Pension

You can take your pension on leaving teaching from the age of 55. An actuarial reduction factor will be applied and this is different in each scheme:

- NPA 60 – around 4% reduction for each year the pension is taken prior to the age of 60
- NPA 65 – between 4% and 5% reduction for each year up to age 65
- STPS 2015 – an additional 3% per year from age 65 to 68.

Premature Retirement Compensation (PRC) Regulations

In the short term there will be no change to the PRC rules. This is an option available to employers to allow members to retire before their normal pension age.

Phased Retirement

"Phased retirement" was introduced from 1 April 2007. This option allows members to work on a part time basis and to access part of their benefits at the same time.

State Pension Scheme

From April 2016 the state pension system will change. The current system is made up of two parts: the basic state pension and the additional state pension (sometimes called SERPS or S2P).

Members of the STSS are "contracted out" of the additional state pension and pay less National Insurance (1.4%) than those who are "contracted in". From April 2016 "contracting out" will end and you will no longer receive the rebate.

At present if you have the requisite contributions for the basic state pension you will be entitled to receive about £115/week. The new state pension will be no less than £148.40/week but those with no or few national insurance contributions after 1 April 2016 will not be entitled to the new combined state pension but will retain their entitlement to the basic state pension.

When considering options around retirement, particularly around commutation of pension to lump sum, members should consider taking independent advice

Working Longer and Early Retirement Group

Due to pressure from Unions a group has been set up to look at minimising the impact of the extension to the pension retirement age, particularly for those whose expected retirement age would have been 60 and will now be 68. The discussion group is tri-partite with the Scottish Government, COSLA and the Unions. Any agreement to let teachers retire early would have to involve the employers who would bear the cost, as is the situation at the moment.

Appendix 1

TAPERED PROTECTION: 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

Appendix 2

TAPERED PROTECTION: 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 February 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