Department for Education

Consultation

Launch Date 26 October 2012
Respond by 21 December 2012

Consultation on Proposed Increases to Contributions for Members of the Teachers' Pension Scheme and the Removal of Regulations Governing Scheme Valuations

Issued: 26 October 2012

Enquiries
If your enquiry is related to the policy content of the consultation you can contact the Department on 0370 000 2288.

e-mail: TeachersPensions.CONSULTATION@education.gsi.gov.uk

Contact Details
If your enquiry is related to the DfE e-consultation website or the consultation process in general, you can contact the Consultation Unit by e-mail: consultation.unit@education.gsi.gov.uk, by telephone: 0370 000 2288 or via the Department's 'Contact Us' page.

Introduction

In July 2011 the Department consulted on proposed increases to contribution rates for members of the Teachers' Pension Scheme (TPS). Following the consideration of responses to that consultation, tiered contributions were introduced into the TPS from April 2012. This consultation sets out the Government's proposals for further increases to teacher contributions from April 2013.

This consultation also sets out the Government's proposals to remove the current provisions in the TPS regulations covering scheme valuations and "cap and share" arrangements. These provisions are no longer necessary, as the Government is implementing a reformed TPS from 2015, which will have new arrangements for conducting valuations.

Scope of the Consultation

The purpose of the consultation is to seek views and evidence on: whether the proposed contribution increases meet the principles set out by the Government; the administrative implications of the proposed changes; and, whether the proposed regulation changes to remove provisions on valuation and "cap and share" are appropriate. To assist with this, the Department has set out specific questions on which it would welcome responses, although consultees are invited to respond on any aspect of the proposals.

Background

Providing good quality pensions is becoming more challenging given increasing life expectancy. That is why the Government set up the Independent Public Service Pensions Commission (IPSPC) chaired by Lord Hutton to make recommendations on how such pensions can be made sustainable and affordable, whilst remaining fair to the workforce and the tax payer.

The IPSPC, as part of its review, produced an interim report considered "the case for delivering savings on public service pensions within the spending review period - consistent with the Government's commitment to protect those on low incomes - to contribute towards the reduction of the structural deficit." In his interim report of 7 October, Lord Hutton recommended that increased longevity and the imbalance between employer and employee contributions are strong reasons to make short-term changes to pension contributions pending a more fundamental redesign of the schemes.

The IPSPC Interim Report stated;

There is a rationale for increasing member contributions to ensure a fairer distribution of costs between taxpayers and members.

It is a matter for the Government to decide the manner and level of any increases in contributions necessary.

If the Government wishes to make savings in the short-term it will be more effective to increase member contributions rather than alter the benefit structure.

It is up to the Government to decide on changes to the structure and level of employee contributions. Since effective benefit levels vary considerably between different schemes, particularly between pre and post reform schemes, then changes to employee contributions could be made to reflect this. However, these differences will, to some extent, be due to historic negotiations around pensions and pay.

The Commission's terms of reference set out that any case for delivering savings should be consistent with the Government's commitment to protect those on low incomes. This is important as an issue of fairness but also because of two important factors:

- it is reasonable to assume that lower paid workers are more likely to opt out of a pension scheme than higher paid workers if they face the same increase in pension contributions as a proportion of their salary. This is in no one's interests, since these people could end up with an inadequate retirement income and could fall onto means tested benefits later in life. The Government would lose revenue in the short-term since these people would no longer be paying any contributions to the scheme; and

- the Commission has shown that in final salary schemes, which still dominate the public service pension landscape, high flyers tend to do better from schemes. People with higher pensions also live for longer and so benefit from pensions for longer. This suggests that there may be a case for targeting contribution increases at high-earners, or to introduce tiered contribution levels; in a similar way that member contributions are currently tiered in the local government and NHS schemes.

To reduce the level of opt-out across the board, the Government should consider staging any increase in contributions, especially in the context of the current pay freeze. Although this might appear to reduce savings in the first few years, if it reduces opt-out levels such staging could in fact maximise extra revenue from member contributions at all income levels. In addition, the Commission does not believe that member contributions should be introduced for the armed forces at this time.

The issues around fairness, sustainability, promoting productivity and the need for transparency and simplicity mean there is a need to consider long-term structural reform of public service pensions. However, that reform will take time. Increased longevity, the imbalance between employer and employee contributions and the fact that total contributions may be too low if the discount rate is too high suggests there is a case to make short-term changes, pending long-term reform.

The Commission considered a range of options that may provide short-term savings, specifically:

- changing the benefits structure;

- contracting public service pension schemes into the State Second Pension; and

- increasing contribution rates.

Of these, the most effective way to make short-term savings is to increase member contributions and there is also a clear rationale for doing so.

It is a matter for the Government to decide the manner and level of any increases in contributions necessary. However, the Commission feels that any increases should be managed so as to protect the low paid and, if possible, increases in contributions should be staged and need to be considered with a view to preventing a significant increase in opt out rates. The Commission does not recommend introducing contribution rates for the armed forces at this time.

The Government announced in the 2010 Spending Review that it accepted the findings of the interim IPSPC Report on public service pensions and that it would therefore seek progressive changes to the level of employee contributions. The total overall savings are £2.8 billion per annum across the public service pension schemes by 2014-15. These savings are to be introduced incrementally over three years starting in April 2012, on a 40%: 80%: 100% basis.

In a statement in July 2011, the Chief Secretary to the Treasury (CST) reiterated the Government's intention to protect low earners and set out the Government's proposal that:

- anyone earning less than £15,000 per year full-time equivalent (FTE) will see no increase, and
- those earning between £15,000 and £21,000 per year FTE will see a gross increase of no more than 1.5 percentage points by 2014-15 (this amounts to a 0.6 percentage point increase in 2012-13 on a pro-rata basis).
- no individual will see a gross increase of more than 6 percentage points by 2014-15 (this amounts to a 2.4 percentage point cap in 2012-13 on a pro-rata basis).

Following a consultation in 2011, the Department implemented the following tiering structure for the TPS to deliver the savings required in 2012-13:

Lower Salary	Higher Salary	Contribution Rate in 2012-13	Increase (against 6.4%)	Membership	% of membership
	14,999	6.4%	0%	1,400	0.2%
15,000	25,999	7.0%	0.6%	116,000	17.1%
26,000	31,999	7.3%	0.9%	117,000	17.2%
32,000	39,999	7.6%	1.2%	271,000	39.6%
40,000	74,999	8.0%	1.6%	172,000	25.2%
75,000	111,999	8.4%	2.0%	4,000	0.6%
112,000		8.8%	2.4%	600	0.1%

In developing this structure the Department worked closely with other public service schemes and HM Treasury to ensure that the design of contribution increases reflects the circumstances of the TPS membership, and considered the impact on different areas of the membership. The contribution increases reflected the principles set out by Government and were designed so that those earning the most pay the highest percentage point increase. The tiers also protect the lowest earners and are designed to encourage maximum participation within the scheme.

Proposals for Contribution Increases from April 2013.

Following implementation of tiered contributions in April 2012, the Department has been monitoring opt-out rates amongst teachers. To date there has been no discernable increase in opt-out rates, from which the Department has concluded that the tiering structure is achieving the Government's aims (further data is provided in annex A).

The Department's starting point for 2013 contribution increases has been to roll-forward the current structure to deliver the next 40% of the savings. However, following discussion with stakeholders, the Department has been considering whether changes to the structure are necessary to provide further protection to some groups. In particular, the Department has considered representations that greater protection should be provided to the lower paid and that the tier from £40k-£75k was too wide (meaning that some classroom teachers were facing the same increase as some headteachers). The Department is therefore proposing the following tiering structure to apply from April 2013:

Pensionable annual earnings in relevant year (£)		Contribution Rate in 2013-14	Increase (against 2012-13)	Break down of the TPS Membership by: Tier, Gender and Working Pattern					
Lower	**Upper**	**Tier %**	**Tier %**	**FT Male**	**PT Male**	**FT Female**	**PT Female**	**Total Members**	**% of member-ship**
Below	£14,999	6.4%	0.0%	48	261	115	476	900	0.1
£15,000	£25,999	7.0%	0.0%	15390	8188	42633	24420	90631	13.9
£26,000	£31,999	7.9%	0.6%	21329	7602	51938	36101	116970	17.9
£32,000	£39,999	8.8%	1.2%	46372	8642	105963	70881	231858	35.4
£40,000	£44,999	9.2%	1.2%	29270	1585	51461	12214	94530	14.4
£45,000	£74,999	10.1%	2.1%	46436	1627	58009	6887	112959	17.3
£75,000	£99,999	10.6%	2.2%	2682	45	2102	54	4883	0.7
£100,000	£150,999	11.2%	2.4%	1015	14	279	249	1557	0.2

This proposal rolls forward the existing tiering structure and distribution approach for those earning up to £40k, with the exception that tier 2 has been capped at 7% to ensure those earning up to £26k will see no further increase beyond the 0.6% applied in April 2012. This provides greater protection for

90.6k (13.9%) of the workforce (in tier 2). The proposal introduces a new tier of £40-£45k, which moves 14.4% of the workforce from tier 6 to tier 5 and provides greater protection for 94.5k (14.4%) more members. This is intended to address concerns that the previous tier 6 was too broad and also an anomaly created by tax relief, which meant that teachers in the £40-45k income bracket faced a greater impact on their take home pay than those on £45-55k. The new tier means that those who earn more will face the larger reduction in take-home pay. However, providing the above protection requires an increase of 0.5 percentage points for those earning £45-£75k in order to deliver the savings foregone by introducing the new tier.

Annex B provides information on the impact of this proposal on members' take-home pay.

The Department would welcome views on the questions below:

Question 1 – Do the proposed tiered contributions meet the objectives set out by the Government in the Spending Review?

Question 2 – Are there any consequences of the proposed contribution tiers that you consider have not been addressed?

Question 3 – Do you consider that there are equality issues that will result in any individual groups being disproportionately affected by the proposed contribution tiering? If so, what do you consider to be the disproportionate effect?

Administration Implications of Tiered Contribution Rates

During last year's consultation the Department set out two options for employers to determine which salary rate should be used to allocate the contributions tier that should be applied to each individual teacher. They were: Option 1 - determine each member's contribution tier at the beginning of the year, and apply that to all subsequent months, and Option 2 - set the tier each month based on the salary within that month (on a pro-rata basis).

Following the consultation the Department implemented option 2, however, a number of employers have since raised concerns about the administrative burden caused by calculating the contributions to be deducted following the application of retrospective pay awards. The Department is therefore proposing an amendment to the current arrangements such that in the event of a retrospective pay award, the employer would determine the new contribution rate based on the new FTE salary, and that would be applied to all member's salary paid in that month (including arrears). FTE is defined as total pay in the month, excluding back pay, multiplied by 12 (on a pro-rata basis). Please see below example:

Monthly Salary

Salary Month	Monthly Pay	FTE	Rate	Contribution Paid
Sept	2,600.00	31,200.00	7.3%	189.80
Oct	2,600.00	31,200.00	7.3%	189.80

In November the member receives a pay increase to £33,000 (an extra £150pcm) and receives a Backdated pay award of £300

Basic Pay in November will move to the new Salary Tier (Tier 4), this Tier will then be applied to any Backdated pay.

Nov	**3,050.00**	**33,000.00 plus backdated pay award**	**7.6%**	**231.80**
Dec	**2,750.00**	**33,000.00**	**7.6%**	**209.00**

Mid-Month Salary Changes

As the recommendation above annualises the pay in November, there will be no requirement for any further calculations in respect of mid-month changes in contributions.

Question 4 - The proposed tiering structure above, proposes moving from seven tiers to eight, to accommodate the additional tier at £40k-45k. From an administration perspective, do you anticipate issues in implementing the revised tiering structure by April 2013?

Question 5 - Do you think that the proposed change to dealing with retrospective pay awards and mid-month changes is necessary? If not, what alternative would you propose?

Scheme Valuations and "cap and share".

The regulations which govern the TPS currently include provisions for contribution rates to be determined, following an actuarial review of the scheme, and "cap and share" arrangements whereby the split of contributions between members and employers would be determined. The actuarial review of the TPS, along with similar reviews of other public service pension schemes, was put on hold whilst the Government considered the implications of the change to the discount rate, announced by the Chancellor in Budget 2011, which is used to calculate the contribution rate and the implications of pension reforms to public service schemes.

The Government has now announced that it will be proceeding with the implementation of reformed public service schemes by April 2015. The reformed schemes will include new arrangements for managing future cost pressures, including an employer cost cap. The Public Service Pensions Bill, which is currently passing through Parliament will provide for these new arrangements.

In light of the new arrangements for setting contribution rates, which will come into effect in 2015, there is now no need to carry out the currently suspended TPS actuarial review or the cap and share processes. The Government considers that the money and resource, which would be used in conducting such processes, is better served focusing on the actuarial valuation which will be needed in order to set up the new TPS. After all, the true costs of the Scheme going forward can only be determined in the full light of the reforms being introduced.

Although the currently suspended actuarial review will not be completed, there will still be visibility and financial control, as costs which would have been shown in the suspended actuarial valuations will still show up in the actuarial valuation, which will be carried out for the new scheme. There will also still be annual valuations of the TPS for accounting purposes, using the same data, although these valuations are not used for setting contribution rates.

Annex C sets out the proposed amendments to the TPS Regulations to remove the current provisions relating to the actuarial review and the application of the cap and share arrangements, as these are now redundant.

Question 6 - The Department would therefore welcome views on whether the proposed amendments to the Teachers' Pensions Regulations 2010 are appropriate.

Summary of Questions

The Department would welcome responses to the following specific questions, supported with evidence where appropriate:

Question 1 – Do the proposed tiered contributions meet the objectives set out by the Government in the Spending Review?

Question 2 – Are there any consequences of the proposed contribution tiers that you consider have not been addressed?

Question 3 – Do you consider that there are equality issues that will result in any individual groups being disproportionately affected by the proposed contribution tiering? If so, what do you consider to be the disproportionate effect?

Question 4 - The proposed tiering structure above, proposes moving from seven tiers to eight, to accommodate the additional tier at £40k-45k. From an administration perspective, do you anticipate issues in implementing the revised tiering structures by April 2013?

Question 5 - Do you think that the proposed change to dealing with retrospective pay awards and mid-month changes is necessary? If not, what alternative would you propose?

Question 6 - The Department would therefore welcome views on whether the proposed amendments to the Teachers' Pensions Regulations 2010 are appropriate.

Responding to this consultation

Responses should be sent no later than **21 December 2012** to:

PUBLIC COMMUNICATIONS UNIT
AREA 1C
CASTLE VIEW HOUSE
EAST LANE
RUNCORN
CHESHIRE
WA7 2GJ.

or by e-mail to: TeachersPensions.CONSULTATION@education.gsi.gov.uk

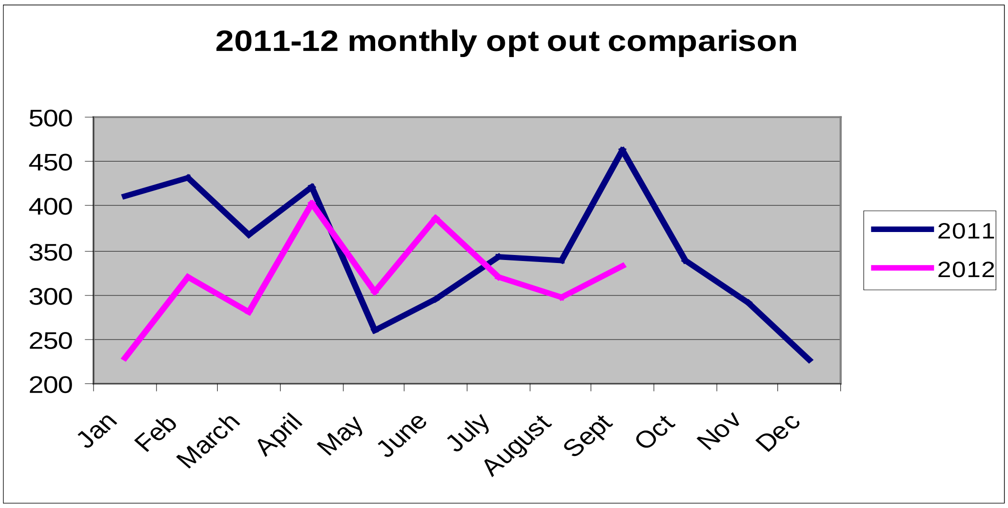
Additional Copies
Additional copies are available electronically and can be downloaded from the Departments e-consultation website at:
http://www.education.gov.uk/consultations

Plans for making results public
The results of the consultation and the Department's response will be published on the DfE e-consultation website in spring of 2013.

Annex A

Opt-out Data since April 2012

Following implementation of tiered contributions in April 2012, the Department has been monitoring opt-out rates amongst those eligible to members of the TPS. The chart below shows the number of opt-outs on a monthly basis for 2012 and 2011.



The chart lines show that there has been no significant change in opt out rates since the introduction of tiered contributions in April 2012. In both years the number of opt outs for June increased in comparison to May, and while the increase for 2012 appears steeper the overall opt-out figures for the year remain below the 2011 figure. Likewise 2011 saw a significant increase during September, while the figures for September 2012 show a smaller increase.

	Male FT	Male PT	Female FT	Female PT	Total
April	112	38	187	66	403
May	74	18	159	53	304
June	99	29	185	73	386
July	76	39	136	70	321
August	72	27	124	75	298
September	84	26	134	88	332
Total	517	177	925	425	2044

This table sets out the breakdown of opt-outs per month since the introduction of tiered contributions. In this six month period a total of 2,044 members have opted out of the TPS. This is comparable to the opt-out level for 2011 over the same period when 2,119 members opted out. The Department will continue to monitor opt-out levels.

Annex B

Reduction in take home pay from increased contributions in 2013

Pensionable annual earnings in relevant year (£)		Reduction in member take-home pay (annually) as a result of contribution structure shown in the main text (£)*
Lower	**Upper**	**2013-14**
Below	15000	£ 0
15000	15999	£ 77
16000	16999	£ 82
17000	17999	£ 87
18000	18999	£ 92
19000	19999	£ 97
20000	20999	£ 102
21000	21999	£ 108
22000	22999	£ 113
23000	23999	£ 118
24000	24999	£ 123
25000	25999	£ 128
26000	26999	£ 316
27000	27999	£ 328
28000	28999	£ 340
29000	29999	£ 353
30000	30999	£ 365
31000	31999	£ 377
32000	32999	£ 614
33000	33999	£ 634
34000	34999	£ 653
35000	35999	£ 672
36000	36999	£ 691
37000	37999	£ 710
38000	38999	£ 730
39000	39999	£ 749
40000	40999	£ 896
41000	41999	£ 918
42000	42999	£ 941
43000	43999	£ 963
44000	44999	£ 986
45000	45999	£ 1,191
46000	46999	£ 1,033
47000	47999	£ 1,038
48000	48999	£ 1,060
49000	49999	£ 1,082
50000	50999	£ 1,104
51000	51999	£ 1,126
52000	52999	£ 1,148
53000	53999	£ 1,170

54000	54999	£ 1,192	
55000	55999	£ 1,214	
56000	56999	£ 1,236	
57000	57999	£ 1,259	
58000	58999	£ 1,281	
59000	59999	£ 1,303	
60000	60999	£ 1,325	
61000	61999	£ 1,347	
62000	62999	£ 1,369	
63000	63999	£ 1,391	
64000	64999	£ 1,413	
65000	65999	£ 1,435	
66000	66999	£ 1,457	
67000	67999	£ 1,479	
68000	68999	£ 1,501	
69000	69999	£ 1,524	
70000	70999	£ 1,546	
71000	71999	£ 1,568	
72000	72999	£ 1,590	
73000	73999	£ 1,612	
74000	74999	£ 1,634	
75000	75999	£ 1,872	
76000	76999	£ 1,897	
77000	77999	£ 1,922	
78000	78999	£ 1,947	
79000	79999	£ 1,972	
80000	80999	£ 1,997	
81000	81999	£ 2,022	
82000	82999	£ 2,047	
83000	83999	£ 2,072	
84000	84999	£ 2,097	
85000	85999	£ 2,122	
86000	86999	£ 2,147	
87000	87999	£ 2,172	
88000	88999	£ 2,196	
89000	89999	£ 2,221	
90000	90999	£ 2,246	
91000	91999	£ 2,271	
92000	92999	£ 2,296	
93000	93999	£ 2,321	
94000	94999	£ 2,346	
95000	95999	£ 2,371	
96000	96999	£ 2,396	
97000	97999	£ 2,421	
98000	98999	£ 2,446	
99000	99999	£ 2,471	
100000	100999	£ 2,880	
101000	101999	£ 2,909	
102000	102999	£ 2,938	
103000	103999	£ 2,966	
104000	104999	£ 2,995	

105000	105999	£ 3,024
106000	106999	£ 3,053
107000	107999	£ 3,082
108000	108999	£ 3,110
109000	109999	£ 3,139
110000	110999	£ 3,168
111000	111999	£ 3,197
112000	112999	£ 3,226
113000	113999	£ 3,254
114000	114999	£ 3,283
115000	115999	£ 3,312
116000	116999	£ 3,341
117000	117999	£ 3,370
118000	118999	£ 3,398
119000	119999	£ 3,427
120000	120999	£ 3,456
121000	121999	£ 3,485
122000	122999	£ 3,514
123000	123999	£ 3,542
124000	124999	£ 3,571
125000	125999	£ 3,600
126000	126999	£ 3,629
127000	127999	£ 3,658
128000	128999	£ 3,686
129000	129999	£ 3,715
130000	130999	£ 3,744
131000	131999	£ 3,773
132000	132999	£ 3,802
133000	133999	£ 3,830
134000	134999	£ 3,859
135000	135999	£ 3,888
136000	136999	£ 3,917
137000	137999	£ 3,946
138000	138999	£ 3,974
139000	139999	£ 4,003
140000	140999	£ 4,032
141000	141999	£ 4,061
142000	142999	£ 4,090
143000	143999	£ 4,118
144000	144999	£ 4,147
145000	145999	£ 4,176
146000	146999	£ 4,205
147000	147999	£ 4,234
148000	148999	£ 4,262
149000	149999	£ 4,291
150000	150999	£ 4,320

*approximate estimate for salaries within each band

The calculation is based on 2013-14 income tax bands (and for those with FTE salaries above £46K the table shows the position of those entitled to tax relief at 40%).

Annex C

Proposed amendments to the TPS regulations

24 October 2012 Draft for consultation

STATUTORY INSTRUMENTS

2013 No.

EDUCATION, ENGLAND AND WALES

The Teachers' Pensions (Amendment) Regulations 2013

Made - - - -	*[early 2013]*
Laid before Parliament	*[early 2013]*
Coming into force - -	*1st April 2013*

The Secretary of State for Education makes these Regulations in exercise of the powers conferred by sections 9 and 12 of, and Schedule 3 to, the Superannuation Act 1972**(1)**.

The Secretary of State has consulted with the persons referred to in section 9(5) of that Act.

In accordance with section 9(1) of that Act, these Regulations are made with the consent of the Treasury**(2)**.

Citation and commencement

1. These Regulations may be cited as the Teachers' Pensions (Amendment) Regulations 2013 and come into force on 1st April 2013.

Amendments to the Teachers' Pensions Regulations 2010

2. The Teachers' Pensions Regulations 2010**(3)** ("the 2010 Regulations") are amended in accordance with regulations 3 to 6.

3. In regulation 18 (Teachers' ordinary contributions) for "paragraphs 2 and 3" substitute "paragraph 2".

4. Omit regulation 128 (actuarial review).

5. In Schedule 3 (employees' and employers' contributions) omit the following—

(a) paragraph 1;

(b) in paragraph 2—

(**1**) 1972 c. 11. Section 9 was amended by sections 4, 8 and 11 of the Pensions (Miscellaneous Provisions) Act 1990 (c. 7); paragraph 7 of Schedule 8 to the Pension Schemes Act 1993 (c. 48); article 107 of S.I. 2001/3649; and article 5 of, and paragraph 27 of Part 2 of Schedule 2 to, S.I. 2010/1158. Section 12 was amended by section 10 of the Pensions (Miscellaneous Provisions) Act 1990.

(**2**) S.I. 1981/1670.

(**3**) S.I. 2010/990.

(i) in sub-paragraph (1) the words “unless paragraph 3 applies”;

(ii) in sub-paragraph (2) the words “for the initial contribution period”; and

(iii) sub-paragraph (3);

(c) paragraph 3;

(d) in paragraph 4—

(i) in sub-paragraph (2) the words “for the initial contribution period”; and

(ii) sub-paragraphs (3) to (8);

(e) paragraph 5.

6. In Schedule 13 (savings and transitional provisions)—

(a) in paragraph 2(a) of paragraph 11, after the words “there were substituted” replace with—

“(b) the percentage is the aggregate of the rates of contributions set out in paragraph 2 (employees’ contributions) and paragraph 4 (employers’ contributions) of Schedule 3 to the Teachers’ Pension Regulations 2010.”.

(b) for paragraph 24 (actuarial review) substitute with—

“Section 16(1) of the Interpretation Act 1978 does not apply on the revocation of regulation G4 of the TPR 1997 to the obligation on the Government Actuary to make the review referred to in that regulation in relation to the account as at 31st March 2008 is affected.”.

(c) after paragraph 27 insert the following—

“The Teachers’ Pensions (Amendment) Regulations 2013

28. Section 16(1) of the Interpretation Act 1978 does not apply on the revocation of—

(a) regulation 128;

(b) paragraph 24 of Schedule 13.”.

Name
Minister of State
Date Department for Education

We consent

Name
Name
Date Two of the Lords Commissioners of Her Majesty’s Treasury

EXPLANATORY NOTE

(This note is not part of the Regulations)

These Regulations, which come into force on 6th April 2013, make amendments to the Teachers’ Pensions Regulations 2010 (“the 2010 Regulations”).

Regulations 3 and 5 remove the cap and share provisions in the 2010 Regulations. Whilst regulations 4 and 6 remove the provisions relating to actuarial review and in particular regulation 6(b) and (c) are concerned with the retrospective removal of the actuarial review provisions.

An impact assessment has not been produced for this instrument as it has no impact on businesses, the public sector or civil society organisations.