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NI Teachers' Pension Scheme (NITPS)

Consultation on proposed increases to employee
contribution rates for April 2012 – March 2013.

Department of Education response

February 2012

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1. Introduction

- 1.1 The Coalition Government announced in the 2010 Spending Review that public service workers would be asked to contribute more for their pensions. The Spending Review set out plans for savings of £2.8 billion per year by 2014-15, which includes the £1 billion of savings already identified by the previous Government. Each public service pension scheme, with the exception of the armed forces, is required to deliver savings equivalent to an average increase of 3.2 percentage points in employee contributions over the same period.
- 1.2 The proportion of the savings falling to the north of Ireland is likely to be in the region of £140 million per year by 2014 -15. In 2012-13 the north of Ireland proportion is approximately £55 million, increasing in 2013-14 to £110 million and finally to £140 million from 2014-15. The Coalition Government has made it clear that if the specified increases to employee contribution rates are not introduced, the NI block grant will be reduced by a corresponding amount in respect of pension scheme costs met by the Treasury from annually managed expenditure budgets.
- 1.3 On 19 July 2011 the Chief Secretary to the Treasury set out the principles that would apply to increases in contributions for members of unfunded public service pension schemes. The Coalition Government laid out a series of preferred parameters¹ within which individual public service pension schemes developed their approach to achieving the required savings. Namely, there should be:
- no increase in employee contributions for those earning less than £15,000 on a Full Time Equivalent (FTE) basis;
 - no more than a 0.6 percentage point increase in 2012-13 for those earning up to £21,000 FTE, and no more than a 1.5 percentage points increase in total by 2014-15; and,
 - no more than a 2.4 percentage points increase in 2012-13 for high earners, and no more than 6 percentage points increase in total by 2014-15.
- 1.4 Within these parameters, the Cabinet Office also developed a preferred approach that sought to protect the low paid, apply increases progressively and limit the level of opt out that higher contribution rates may generate.
- 1.5 The Northern Ireland Executive agreed on 22 September 2011 to:

¹ Written Ministerial Statement 19 July 2011: www.hm-treasury.gov.uk/d/wms_pensions_190711.pdf

- commit to the principle of delivering the targeted level of savings to the cost of the public sector pension schemes in the north of Ireland, subject to the details of how those savings will be delivered being worked through over time;
- agree to adopt this approach consistently for each of the different public sector pension schemes; and,
- authorise engagement with the unions to discuss a graduated approach which protects lower paid public sector workers.

1.6 Within this context, the Department of Education consulted on a preferred approach to increasing the level of contributions made by members of the NI Teachers' Pension Scheme (NITPS) towards their pension in 2012-13. This document provides a summary of the responses received, key findings and the next steps.

2. Consultation proposal

- 2.1 The consultation focused on the distribution of increases that would be applied from 2012-13. It sought views and evidence on how the proposed contribution increases for financial year 2012-13 could be delivered for the NITPS in a way which protects lower paid public sector workers and limits the risk of increases in the rate of opt-outs from the scheme. It also sought views on the administrative implications of the proposed changes. To assist with this, the Department set out specific questions, although consultees were also invited to respond on any aspect of the proposals.
- 2.2 The consultation document proposed the introduction of a system of tiered contributions in 2012-13, based on those proposed by the Department for Education in its consultation issued on 28 July 2011 for members of the Teachers' Pension Scheme in England and Wales. The proposed tiers are designed to be consistent with the principles of protecting the low paid; introducing increased contributions in a way that is progressive; and reducing the risk of opt-outs.
- 2.3 The current member contribution rate is 6.4% of salary. The proposed contribution rates for 2012-13, on which the Department consulted, are as follows:

Lower Salary	Higher Salary	Contribution Rate in 2012-13	Increase (against 6.4%)
	14,999	6.4%	0%
15,000	25,999	7.0%	0.6%
26,000	31,999	7.3%	0.9%
32,000	39,999	7.6%	1.2%
40,000	74,999	8.0%	1.6%
75,000	111,999	8.4%	2.0%
112,000		8.8%	2.4%

- 2.4 It was proposed within the consultation document that the contribution tier in which a member falls would be determined by reference to their full-time equivalent salary, e.g. a member with a working pattern of 50% with a FTE salary of £46,000 (actual pay £23,000) would pay a contribution of 8.0% of their salary in 2012-13. The rationale for this approach is that it is a member's FTE salary which is used to calculate their pension entitlement, and would apply to all previous full-time and part-time service.
- 2.5 The Department also asked for views on variations to the proposed rates set out above, which provide additional protection for those teachers at the lower end of the pay scale. The variations in the consultation document are reproduced in tables 1 to 3 below.

Table 1 – Variation of proposed increases to contribution rates to provide for no increase for those paid below £26k, partial protection for those below £32k.

Lower Salary	Higher Salary	Contribution Rate in 2012-13	Increase (against 6.4%)	Membership*	% of membership
	14,999	6.4%	0.0%	0	0.00%
15,000	25,999	6.4%	0.0%	417	2.23%
26,000	31,999	7.0%	0.6%	1,779	9.53%
32,000	39,999	7.6%	1.2%	9,408	50.37%
40,000	74,999	8.1%	1.7%	7,011	37.54%
75,000	111,999	8.4%	2.0%	58	0.31%
112,000		8.8%	2.4%	3	0.02%

Table 2 - Variation of proposed increases to contribution rates to provide for partial protection for those below £26k and for those below £32k.

Lower Salary	Higher Salary	Contribution Rate in 2012-13	Increase (against 6.4%)	Membership*	% of membership
	14,999	6.4%	0.0%	0	0.00%
15,000	25,999	6.7%	0.3%	417	2.23%
26,000	31,999	7.0%	0.6%	1,779	9.53%
32,000	39,999	7.6%	1.2%	9,408	50.37%
40,000	74,999	8.1%	1.7%	7,011	37.54%
75,000	111,999	8.4%	2.0%	58	0.31%
112,000		8.8%	2.4%	3	0.02%

Table 3 - Variation of proposed increases to contribution rates to provide for no increase for those below £32k. Those earning over £40k will make up the shortfall.

Lower Salary	Higher Salary	Contribution Rate in 2012-13	Increase (against 6.4%)	Membership*	% of membership
	14,999	6.4%	0.0%	0	0.00%
15,000	25,999	6.4%	0.0%	417	2.23%
26,000	31,999	6.4%	0.0%	1,779	9.53%
32,000	39,999	7.6%	1.2%	9,408	50.37%
40,000	74,999	8.2%	1.8%	7,011	37.54%
75,000	111,999	8.6%	2.2%	58	0.31%
112,000		9.0%	2.6%	3	0.02%

* Members on permanent (including part-time) contracts. Excludes Voluntary Grammar Schools.

- 2.6 The model adopted for the NITPS must deliver savings at least equivalent to the savings that would be delivered if the England and Wales model were adopted. Additional protection for lower paid members in the above variations is therefore offset by higher increases for those higher up the salary band.
- 2.7 For clarity, the employer contribution rate (currently 13.6%) will remain unchanged in 2012-13.

3. Consultation process

- 3.1 The Department of Education published a consultation on the proposed increases to contributions for members of the NITPS on 31 October 2011 with a closing date of 23 January 2012.
- 3.2 As part of the consultation exercise, the Department published draft regulations which will make the changes to the Teachers' Superannuation Regulations (NI) 1998 that are needed to give effect to the proposed increased member contributions from April 2012.
- 3.3 The consultation documentation, including the draft regulations and an Equality Screening, was published on the DE website on 31 October 2011. The Department notified bodies in the education sector, other stakeholders, Section 75 consultees and other interested parties. In addition, schools were emailed and the consultation was advertised in the Belfast Telegraph, the Irish News, the Newsletter and Foinse. Responses could be returned by email or by post. The consultation closed on 23 January 2012.
- 3.4 On 28 October 2011, in advance of publication, the Department discussed the consultation proposals with members of the Teachers' Superannuation Consultative Committee (TSCC) - the established forum for consultation on matters relating to the NITPS, comprising trades unions and employer representatives from both the school and further education sectors. TSCC members were again invited to put forward their views at a further meeting on 26 January 2012.
- 3.5 A total of **21** responses were received. These were mainly from teachers and lecturers, their employers and their trade unions.

4. Key findings

- 4.1 This report summarises the findings that have resulted from the public consultation on the proposed employee contribution increase to the NITPS in financial year 2012-13. In total 21 responses were received. Respondents fell into the following categories:

Teachers/Lecturers	2
Principals/Vice Principals	8
Employers	2
Other	3
Trade Union	6

- 4.2 A number of respondents chose not to comment on the preferred approach or put forward alternative ways of structuring the increases and instead set out their opposition in principle to the policy of increasing member contributions. As they did not address the specific questions, or comment on the proposals for distributing the contributions increase, their views are outside the remit of this particular consultation.

Question 1 – Do the proposed tiered contributions achieve the appropriate balance between:

- protecting the low paid;
- being progressive – so that those who earn more pay more; and
- limiting the risk of increases in the rate of opt-outs from the NITPS?

There were **13** responses to this question.

Summary of responses

The purpose of the consultation was to seek views and evidence on whether the proposed contribution increases were consistent with the principles set out by the Executive. Some respondents agreed that the tiered contributions would meet the Executive's objectives, while others argued that any increase in contributions could potentially increase opt-out rates. This is dealt with in the response to Question 2. One response argued that the tiers did not provide sufficient protection for low paid part-time workers. This is dealt with in the response to Question 3.

Conclusion

The proposals are designed to provide a significant degree of protection to those on lower salaries to minimize opt-out risks and the position will be carefully monitored. The conclusion from the responses received, that are relevant to the specific question, is that the Department's proposed tiered contributions meet the objectives set out by the Executive.

Question 1a – Should we adopt the England and Wales proposals or adjust to provide additional protection for lower paid teachers in NI as long as these achieve the required saving for 2012/13?

There were **2** responses to this question

One of the responses set out opposition to the contribution increase policy and can therefore be disregarded as it did not address the question. The other response favoured adopting the England and Wales proposals.

Question 1b – (If Applicable) If we adjust the England and Wales proposals to provide additional protection for lower paid teachers, which of the variations (1, 2 or 3) is your preferred option?

There were **no** responses to this question

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

There were **13** responses to this question.

Summary of responses

Three main areas were raised in response to this question. These, along with the DE response, are shown below:

Issue	DE Response
Changes in contribution rates will increase opt-out rates.	The contribution tiers are designed to ensure that those in the early stages of their career have the smallest increase in contribution rates. Guidance will be provided to ensure that members and employers are clear on the benefits that the scheme provides. This will ensure that employees make fully informed decisions about participation in the scheme.
Progressive contribution increases will deter teachers from taking promotion opportunities.	The tiers have been designed to minimise the impact of the step changes in contribution rates and the Department does not consider that this will act as a barrier to career progression. For example, a classroom teacher earning £27,104 (Main Scale Point 4) would contribute

	<p>7.3% of their salary (resulting in contributions of £1,979 in the year). If the teacher were promoted to Vice-Principal earning £37,461 (Spine Point L1) they would contribute 7.6% (resulting in contributions of £2,847 in the year). In this example, the salary will increase by over £10,000 per year and contributions will increase by £868 per year (these figures are before tax and tax relief). The increase in salary is significantly higher than the additional contributions that they would be required to make and therefore is unlikely to deter career progression.</p>
<p>The proposed contribution tiers are not consistent with the tax bands, for example the contribution tier £40,000 - £74,999 covers the higher tax threshold.</p>	<p>This approach was considered (i.e. contribution tiers matching tax bands). However, it was concluded that it was inappropriate for the NITPS because this would result in contribution tiering which is not representative of the career paths for the majority of teachers, which is the principle on which the proposed contribution tiers have been constructed.</p>

Conclusion

A number of issues were raised and these have been considered in light of the principles underpinning the proposed contribution tiers. The Department's proposals were designed to mitigate the risks identified above. The Department will carefully monitor the impact of the contributions increase, including any unforeseen consequences, and any lessons learned will inform the position for future years.

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?

There were **14** responses to this question.

Summary of responses

There were two main areas where comments were provided. These, along with the DE response, are shown below:

Issue	DE Response
<p>Contribution tiers will be based on Full-Time Equivalent (FTE) salaries and therefore there will be a disproportionate effect on part-time staff. This leads to an equality concern as a high proportion of part-time teachers are female. Unions requested that a full Equality Impact Assessment be completed.</p>	<p>These views on part-timers were carefully considered, as the decision on how to approach this issue is finely balanced. We have concluded that the use of Full Time Equivalent salary will ensure that the same level of contributions are set relative to the amount staff earn per hour which is the fairest way of treating full and part-time staff in relation to this issue. This means that the percentage contribution rate is set according to the full-time equivalent pay of part-time staff. However a part-time worker would then pay contributions equal to that percentage contribution rate of their actual part-time pay. The part-time worker's length of service would also be scaled down to its full time equivalent length. This is consistent with existing practice in other schemes. Most NITPS members have significantly more full-time service than part-time service. (See example below.)</p>
<p>The proposals will unfairly impact on teachers in senior posts because they are being asked to pay more but don't get higher benefits in return.</p>	<p>The contribution rates are reasonable and proportionate, consistent with the Executive's objective of ensuring that the increase is progressive and protects the lower paid. More senior teachers will be advantaged by the way that significant salary progression is more beneficial in a final salary scheme.</p>

Impact on part-time workers

Employees who work part-time have their contributions based on their full-time equivalent salary rather than their actual earnings. This creates a difference in contribution rates between full and part time workers with the same level of income.

For example, a teacher who works full-time earning £21,588 (Main Scale Point 1) would pay a contribution of 7% (gross) whereas a part-time teacher earning £21,582 in a role that has a full-time equivalent salary of £43,163 (Upper Pay Scale Point 3 + Teaching Allowance 3) would contribute 8% (gross) under the proposed tiering described at Para 2.3 above.

The percentage contribution rate is set according to the full-time equivalent pay of part-time staff. However a part-time teacher would then pay contributions equal to that percentage contribution rate of their actual part-time pay. The part-time teacher's length of service would also be scaled down to its full-time equivalent length. This is consistent with existing practice in other schemes that already operate a system of tiered contributions

To illustrate, if we compare the pensions of two teachers who are doing the same role – one working full-time earning £40,000, and one whose full-time equivalent pay is £40,000 but who is working part-time at half of full-time hours and earning £20,000:

- The full-time teacher pays 8% contributions (£3,200) on £40,000 and earns 1/80th of this as pension - worth £500 per annum
- The part-time teacher pays 8% contributions (£1,600) on £20,000, which is half of £40,000, and earns half of 1/80th of this as pension - worth £250 per annum.

£250 is half of £500. Therefore this is fair and equitable as the part-timer is working half the hours of the full timer, is earning half the pay of the full timer, is paying pension contributions that are half those of the full timer and is getting a pension that is half that of the full timer.

Conclusion

The Department has completed an Equality Screening Exercise which concluded that the introduction of the secondary legislation will not differentially impact adversely on any of the Section 75 groups. The Department believes that the contribution increase proposals represent a reasonable and proportionate means of achieving the Executive's objectives.

Question 4 – Two alternative proposals have been provided to calculate the FTE salary to set the contribution rate. Which alternative do you consider effectively balances equity, fairness and administration considerations? Do you propose an alternative method?

Option 1

To ensure that members understand how tiered contribution rates operate, the first proposal is that the contribution rate applicable for the year will be set at the beginning of the year and, subject to significant salary-increases or decreases, would remain throughout 2012-13. It is proposed that an individual member's contribution rate would be set using their FTE salary as at 31 March 2012. i.e. if a member is earning £30,000 on that date their contribution rate would be 7.3% of their actual salary each month of the following year.

Option 2

The Department recognises that in most cases teachers' pay progression, as well as career moves, takes place in September and setting the FTE salary level at 31 March may not be appropriate. The alternative is to make contribution payments based on the salary within that month (on a pro-rata basis).

There were **11** responses to this question.

Summary of responses

The majority of respondents selected Option 2 as representing the fairer approach. Respondents pointed out that setting the contribution rate based on salary at the beginning of the year could potentially result in teachers on the same salary paying different contribution rates. This could occur if a teacher was promoted after the contribution rate was set, which is clearly inequitable. Some respondents raised concerns that Option 2 would be administratively more difficult to implement.

Conclusion

The Department recognises that Option 2 could be administratively more complex for some employers depending on the payroll systems they use. However, the Department considers that any administrative issues should not be prohibitive. The Department therefore concludes that the fairer option (Option 2) should be implemented to calculate the appropriate contribution tiers.

Question 5 – From an administration perspective, do you consider that seven tiers are administratively appropriate? If not, what alternative do you propose?

There were **10** responses to this question.

Opinion was divided on whether seven tiers are administratively appropriate.

Conclusion

No evidence was presented that seven tiers would be administratively too complex and the Department has therefore concluded that seven tiers are appropriate.

Question 6 – If the contribution rate is set for each year, do you think it would be appropriate to review this for significant changes in salary? If so, what threshold should be used?

There were **11** responses to this question.

Summary of responses

The majority view in response to Question 4 was that Option 2 should be the method by which the contribution tiers are set, i.e. calculated based on a member's monthly pay. The Department agrees with this proposal.

This means that Question 6 is no longer relevant as it is concerned with Option 1 at Question 4. The following briefly outlines responses but no DE response or conclusion is provided.

Of the responses received four agreed that if Option 1 (at Question 4) were chosen then reviewing significant salary increases would be appropriate. An increase of 10% was suggested. (This would be consistent with the current scheme provision for assessing pay increases for the purposes of the average salary calculation.)

Four responses suggested that if Option 1 at Question 4 were chosen, the contribution rates should be set based on salaries in September.

Question 7 – Do you consider that the Department's proposals for determining the contribution rate for new staff, those with multiple-employment or those returning to the scheme are appropriate?

There were **13** responses to this question.

Summary of responses

There was general agreement that the proposals are appropriate for new staff, those returning to the scheme and those with multiple employments.

One response argued that for multiple employments contributions should be based on an average salary.

Conclusion

There was support for the process described within the consultation document. Compiling an average salary for multiple employments is administratively impracticable. The Department concludes from the consultation that the proposals for determining the contribution rate for new staff, those with multiple-employment and those returning to the scheme are appropriate.

5. Conclusion and next steps

- 5.1 The Department is grateful for all responses to the consultation and would like to thank every individual and organisation who submitted their views.
- 5.2 The Department has given careful consideration to the issues that were raised in consultation. The majority of responses provided opposition to the policy of increasing pension contributions within the public sector schemes. The above shows the number of responses relevant to each question.
- 5.3 From the responses received (that were within the remit of the consultation), the Department has concluded that the proposals contained within the consultation document are reasonable and meet the objectives. Where concerns were raised, the Department has provided responses.
- 5.4 Appropriate changes will be made to The Teachers' Superannuation Regulations (Northern Ireland) 1998 to enable the increases in employee contributions to be introduced with effect from April 2012.