Key information in this circular:

1. Employer contributions from 1 September 2015 will rise to 17.2%.

2. The current employer contribution rate of 14.9% will continue to apply until 31 August 2015.

3. A further circular will be issued confirming member contribution rates from 1 April 2015.

Background

1. The Public Service Pensions Act 2013 (the Act) sets out the changes that must be introduced to public sector schemes from 1 April 2015. A new Career Average Re-valued Earnings (CARE) scheme will be introduced for Teachers in Scotland from 1 April but those close to retirement will continue to accrue pension service under current final salary arrangements after 1 April 2015. Full details of the 2015 scheme design and protections provided can be viewed on the SPPA’s website and employers will already have received a separate e-bulletin explaining how the SPPA, as scheme administrator, will inform scheme members of these changes.

2. The Act also requires regular actuarial valuations of public service pension schemes in order to ensure that scheme costs are properly accounted for and the appropriate level of contributions are paid. The process for and approach to scheme valuations is set out in Directions made by HM Treasury.

3. The first valuation of the Scottish Teachers pension scheme under these new arrangements (as at 31 March 2012) is due to be finalised shortly. This valuation will set new employer contribution rates for 2015-16 onwards. It will also establish an employers’ contribution ‘cost cap’.
New employer contribution rate

4. Though final checks are being made before the valuation can be formally signed-off, it is already clear that employers will be required to pay a contribution rate of 17.2% on pensionable earnings from 1 September 2015. That date has been selected so that the change is better aligned to the academic year. The current rate of 14.9% will continue to be payable until then. The new rate (17.2%) will apply from 1 September 2015 until 31 March 2019, at which point the rate will be revised in line with the outcome of the next scheme valuation, which will be as at 31 March 2016 and will be conducted during 2016 and 2017.

5. This rate applies regardless of whether a member is accruing service under final salary or 2015 CARE arrangements.

New member contribution rates

6. Details of the member’s contribution rate to be due to be paid from 1 April 2015 will be issued shortly and will apply to all active members irrespective of whether they are accruing pension under the current final salary or under the new CARE arrangements.

Employers’ cost cap

7. The 2012 actuarial valuation will generate an employer cost cap for the pension scheme. This has no practical value at this point in time, but will be an important benchmark against which to measure the outcomes of the next actuarial valuation (as at 31 March 2016) to determine whether related changes in scheme cost (upwards or downwards) are sufficient to trigger cost or saving sharing.

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