

## **Consultation on the discount rate used to set unfunded public service pension contributions.**

### **Response of the Association of School and College Leaders**

- 1 The Association of School and College Leaders (ASCL) represents over 15,000 members of the leadership teams of maintained and independent schools and colleges throughout the UK. This places the association in a good position to comment on the possibility of change in the Teachers' Pension Scheme.
- 2 ASCL is a signatory to the Joint Response by the Teachers' Side of the Teachers' Superannuation Working Party.

#### **Introduction**

Before responding to the specific questions posed in the consultation document ASCL would wish to make some general observations.

- 3 In his interim report Lord Hutton observed that the discount rate is "...at the high end of what is appropriate". He did not say that it is inappropriate and whilst calling for a review did not recommend change.
- 4 It is noted, with disappointment, that the status quo is not offered as an alternative. Current arrangements should be considered along with alternatives.
- 5 The apparent desire to align public sector pensions with, or at least to compare them to, funded defined benefit schemes such as those found in the private sector is ill considered. Public sector pensions are not dependent upon the markets, have the security of guarantee from the state unavailable in the private sector, and can be planned for over long periods.
- 6 The current discount rate has been set for good reason and no decision to change it should be taken lightly. The same methodology is used in other areas of public expenditure and there may be considerable ramifications from any change.
- 7 It was anticipated that the scheme would be subject to valuation before changes were made in contributions. It is noted that the valuation has been postponed until after decisions on the discount rate are made.
- 8 It is necessary for there to be an understanding of the significance to public sector workers of their pensions, as part of their remuneration and as part of their identity as public servants. Pensions have a significant part to play in the recruitment and retention of staff.
- 9 There is grave concern that assumptions, if not decisions, have already been made in this matter and that of employee contributions.

## Responses to questions in the consultative document.

Question 1. Chapter 1 sets out the expected impacts of a lower discount rate. Are there any other impacts arising from a change in the discount rate?

- 10 This question assumes that a change in the discount rate is inevitable. ASCL maintains that a change is unnecessary.

Question 2. Chapter 3 sets out objectives for the Government in setting the SCAPE discount rate. Are there other objectives that should be taken into account?

- 11 These objectives appear to cover the main issues.

Comment is offered on the objectives:

- To provide a fair reflection of costs:  
12 This is a reasonable aim but the costs should be established by a scheme valuation.
- To be transparent and simple:  
13 ASCL would support this aim. It is hoped that transparent and clear would refer to the understanding by members of the scheme and not just professionals and experts.
- To reflect future risks to Government income:  
14 This is an appropriate matter for consideration but the clear distinction between public sector pensions and private sector funded schemes must be taken into account.
- To provide stability in employer charges:  
15 The cost sharing agreement of 2006 already provides for this in the Teachers Pension Scheme.
- To support the plurality of provision of public services:  
16 ASCL rejects the concept that this motive should drive a change in the discount rate.
- To encourage high quality pension provision:  
17 This is a key element and if such an aim is to be realized it must be taken into account in setting the discount rate.

Question 3. Chapter 3 sets out four options. What are the advantages and disadvantages of the four options by the commission for the approach to setting the SCAPE discount rate?

- 18 ASCL rejects the options linking the discount rate to private funded schemes or market returns due to the different nature of public sector pensions. Option 4 is supported as it is consistent with current practice, not just in pensions but across government spending.

Question 4. Are there further approaches to setting the SCAPE discount rate that the Government could consider? If so, what are their advantages and disadvantages?

19 ASCL is unaware of other approaches.

Question 5. Which approach to setting the SCAPE discount rate do you recommend and Why? Following your preferred approach, what actual discount rate do you consider would be appropriate?

20 ASCL would prefer the social time preference rate, on the current discount rate of 3.5% and using the RPI not CPI.

Question 6. Do you consider that there should be a regular review of the SCAPE discount rate? If so, how often this should take place?

21 There is no apparent need for such reviews to take place regularly.

22 ASCL is willing to be further consulted and to assist in any way that it can.

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