

Consultation on Teacher Pension Scheme member contribution rates

Response of the Association of School and College Leaders

- 1 The Association of School and College Leaders (ASCL) represents 15,000 members of the leadership teams of maintained and independent schools and colleges throughout the UK. This places the association in a unique position to consider this from the viewpoint of the leaders of both secondary schools and colleges.
- 2 ASCL is a signature to the Joint Response by the Teachers' Side of the Teachers' Superannuation Working Party.

Introduction

- 3 ASCL is deeply disappointed and frustrated that this consultation is on the implementation of the proposed changes to members' contributions rather than on the changes themselves, which have been announced without consultation. The proposed increase is aimed solely at making savings for the Treasury as part of the deficit reduction plan and is not connected to the actual cost of the scheme. There has been no actuarial justification for these increases. ASCL would wish to see the completion and publication of the 2008 valuation.
- 4 The proposed rise of an average 3.2% takes place at a time of a pay freeze in the public sector and is a *de facto* pay cut. This consultation is taking place detached from the issue of scheme change. These rises in contributions, and the introduction of tiered contributions, could either prejudice discussions still to take place or potentially lead to contribution increases for some members considerably above the 3.2% average.
- 5 Similarly, these contribution rises may have an effect upon employer contributions, something as yet not disclosed in the current Teachers' Superannuation Technical Group meetings with the Department for Education (DfE). Again, there is a concern with this process being separated from consideration of longer term issues.
- 6 ASCL would wish to see more creative and imaginative approaches to the future of pensions. Tiered contributions could have a role to play through a voluntary system tied to benefits. Members could opt to pay more for specific benefits such as a reduced retirement age.

Responses to the specific questions

Question 1

Do the proposed tiered contributions meet the objectives set out by the government in the spending review...

- 7 **...to protect the low paid?** Most new entrants to the profession will in future bear a greater level of student debt. They will have to make hard financial decisions and a pension may not be a priority at their age.
- 8 **...to be progressive - so that those who earn more pay more?** The figures quoted in the consultation document show potential contribution rates for 2012-13. It is likely that these would increase in subsequent years, possibly reaching 11.4% and 12.4% for the highest two

tiers. This represents a considerable burden, even for the higher paid. Pension benefits have been proportional to contributions for all scheme members and this proposal would lead to some paying disproportionately more. The comments in the introduction to this response are relevant here.

- 9 **...to limit the risk of increases in the rate of opt outs from schemes?** The evidence from the past that the lowest paid are the most likely to opt out may not be a successful way of predicting the future. Senior leaders in schools and colleges receive higher salaries to reflect the greater responsibility and accountability that they carry, their experience and their highly developed skills. Recruiting and retaining the very best talent is vital to the future of our education system. Able young teachers should be encouraged to seek responsibility posts and develop their leadership skills to the point where they are ready and willing to take senior leadership posts. Similarly, proven, successful leaders should be encouraged to stay in post. Significant increases in pension contributions will lead to more opt outs from the scheme by more senior teachers and a greater move to leave the profession altogether. It is not as simple as anticipating the impact of these contribution rises, they have to be seen in terms of long term reform which currently suggests a rise in the retirement age and a reduction in benefits relative to the current scheme.

Question 2

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

- 10 The issues around recruitment and retention (both in the profession and in the scheme) of senior leaders made above are relevant here. If those entering a higher tier calculate or are advised that they could expect a better return from their contributions by leaving the scheme, which will be the case if some of their contributions are not used to support benefits they might receive but those of other scheme members, it is likely that they will do. This could mean that the income to the scheme is not as high as calculated from those groups expected to make the highest contribution.

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?

- 11 The logic for assessing part time staff on their full time equivalent is understood and appreciated and is in line with the calculation of benefits. It could, however, lead to a rise in contributions for part time staff having a disproportionate effect relative to their actual salary.
- 12 Clearly, indeed by definition, better-paid members of the scheme will be disproportionately affected by this proposal

Question 4

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

- 13 Given that many staff changes are in September, of the two options ASCL prefers Option 2. A third alternative of real time change would be preferred.
- 14 The growth in the number of academies and free schools means that more individual institutions need to administer pension schemes. The cost and complexity of such administration should be considered but this factor must not control the quality of the pension scheme provided. Amending full time equivalent (FTE) salary once a year (whether in March or September) may be appropriate for many scheme members, but a member receiving a mid-year rise could possibly continue to pay at a lower level than their salary warrants,

advantaging them against others on a similar salary. This could become an even greater issue should a career average scheme be introduced when year on year contributions are more critical than in a final salary scheme. Therefore, contributions should change in the month the salary changes. Payroll software achieves this for income tax and National Insurance and should be able to do so for pension contributions.

Question 5

From an administrative perspective, do you consider that seven tiers are administratively appropriate? If not, what alternative do you suggest?

- 15 Such a specific question cannot sensibly be answered when the overall nature of future pension provision is unclear.
- 16 The priority must be to produce the best possible pension scheme, the administrative demands should be reasonable but not a constraint.

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?

- 17 ASCL's view on setting salaries is covered in question 4.
- 18 If Option 1 is to be adopted, the date for setting salaries should be September. The thresholds should take account of current pay scales and reflect significant stages in career and pay, not trapping teachers whose salary rises on normal scale progression. Similarly, considerable reductions in salary should be reviewed. The current scheme uses 10% for capping pensionable rises; this may be an appropriate figure for school leaders but, again, this is a detailed administrative question asked in an uncertain context.

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?

- 19 ASCL favours option 2. It is envisaged that new staff and returning members would have a FTE set at appointment and subject to a review if there is any change. Those in multiple employments should have a separate contribution rate for each employment.
- 20 I hope that this is of value to your consultation, ASCL is willing to be further consulted and to assist in any way that it can.

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19 October 2011