

RESTRICTED



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

John Swinney MSP
Cabinet Secretary for Finance Employment
and Sustainable Growth
St Andrew's House
Regent Road
Edinburgh EH1 3DG

22 October 2012

A handwritten signature in blue ink, appearing to read 'John Swinney'.

2013-14 PENSION CONTRIBUTION INCREASES

I am writing to outline the process concerning further increases in member contributions rates to public service pension schemes.

2. As you are aware, at the spending review the UK Government announced an increase in member contribution rates for all public service pension schemes that it has responsibility for, except the Armed Forces. The savings from this average 3.2 percentage point increase, to be phased in from 2012-13 to 2014-15, meant that at the Spending Review the Government was able to spend an additional £1.2bn in 2012-13, £2.3bn in 2013-14 and £2.8bn in 2014-15. This additional spending was reflected in the Scottish Executive spending allocations, through the Barnett formula.

3. In April 2012, you implemented the first year of these increases in the schemes that you are responsible for, in line with the rest of the UK. The UK Government took the decision not to finalise further years' increases for until opt-out data following the first year of increases had been reviewed.

RESTRICTED



4. The available data has now been reviewed, and shows that there has been no discernable increase in opt-out. In light of this, the UK Government has agreed the following approach to the further increases:

- The central parameters agreed last year are retained. That is, an in-scheme approach with the following requirements:
 - Each scheme to increase contributions by 3.2 percentage points in total by 2014-15, phased in 40% : 80% : 100% each April from 2012 onwards. (with an exception for firefighters' increases to be phased in 20% : 60% : 100%).
 - No increase in contributions for those earning under £15,000 per annum on a full time equivalent (FTE) earnings basis;
 - A maximum increase of 1.5 percentage points in total for any individual for those earning under £21,000 per annum on an FTE earnings basis, pro-rata in 2012-13 and 2013-14; and
 - A maximum increase of 6 percentage points in total for any individual, pro-rata in 2012-13 and 2013-14.
- Only the 2013-14 structures are finalised and legislated for at this point. To honour the spirit of the Government's commitment to fully consider opt-out, structures for 2014-15 will only be finalised when there is a further year of data.
- Departments should carry out reviews of opt-out at scheme-level, and share with member representatives and other stakeholders, to make it clear that the Government is taking opt-out implications into full consideration.



5. UK Departments are now in the process of finalising tiering structures that are consistent with these parameters, in time for implementation by April 2013. I therefore urge the Scottish Executive to once again implement increases on the same basis, to ensure the Devolved schemes maintain parity with their equivalents. Officials in the relevant Departments should be available to assist with this.

6. In line with our normal funding rules, in the event that the Scottish Executive chooses not to implement the further increases in contributions, the Treasury would make an according adjustment to the Scottish Executive Budget. Similarly, in the event of any time overrun beyond April 2013 the Treasury would have to reduce the Scottish Executive Budget by £8.4m for every month's delay. I sincerely hope, however, that neither of these eventualities is required.

7. I would be grateful if you could confirm your approach to further increases by 2 November. I look forward to receiving your response.

A handwritten signature in blue ink, appearing to read 'Danny Alexander', written over a printed name.

DANNY ALEXANDER

