Department for Education

Teachers' Pension Scheme Supplementary Estimate 2022-23

Memorandum to the Education Select Committee

January 2023

Teachers’ Pension Scheme Supplementary Estimate 2022-23

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Overview

Objectives

The Teachers' Pension Scheme (TPS, the Scheme) is an unfunded defined benefit Scheme, in which payments from the Scheme are funded by contributions from current employees and employers in England and Wales, with the shortfall being financed by the Exchequer.

Spending Controls

The TPS budgets are not subject to pre-set Departmental Expenditure Limit (DEL) control totals; they sit within a category of spending known as Resource Annually Managed Expenditure (R-AME), which can be revised and reforecast regularly. This is because net expenditure and cash payments are largely outside the control of the scheme administrators on a day-to-day basis, instead being affected by factors such as membership numbers; salary levels; mortality rates; the age profile of members and annual pension increases.

The **R-AME** sought under the TPS Estimate is essentially the amount by which liabilities under the Scheme are estimated to increase during the year, less the contributions paid by employers and employees towards those liabilities.

In addition, the **net cash requirement** represents the estimated net cash required for the year to cover payments of pensions, after taking account of estimated contributions and transfer values paid in by employees and employers. Over time, these amounts are intended to balance, but in a particular year they will not. A negative value means that more is forecast to be received than paid in year.

Comparison of Net Spending Totals Sought

The table and graphic below shows how the totals sought for the Scheme compare with last year:

Net Spending Total **Amounts sought this year (£ million)**		**Compared to original budget this year (Main Estimate)**		**Compared to the final outturn for last year**	
		£ million	**%**	**£ million**	**%**
Net AME Resource	22,171.0	108.0	0.5%	4,235.9	23.6%
Net Cash Requirement	1,984.4	-548.8	-21.7%	300.1	17.8%

Further details can be seen on page 6.

Key Drivers of Spending Changes since Last Year

The provision sought under R-AME is higher than last year by £4,235.9 million, with the most significant changes being described below.

The main factors that have increased the resource request:

- Current Service costs are £2,134.9 million higher. The underlying rate used to calculate the current service cost, prescribed by the scheme Actuary, increased in 2022-23 to 82.30% of the pensionable pay bill (2021-22: 77.00%). In addition, the pay increase (noted below) for teachers increases the current service costs.

- Interest on Scheme liabilities increased by £2,420.6 million due to an increase in the interest rate set by HM Treasury to 1.55% in 2022-23 (2021-22: 1.25%). Most of the interest cost is calculated against the opening actuarial liability which increased to £532.3bn in 2022-23 (2021-22: £481.0bn).

The main factor that has decreased the resource request:

- Contributions have increased by £265.8 million. From 1 September 2022 there was a pay increase of between 5% and 8.9% for all teachers which increased contributions receipts. There has also been an increase in contributions due to staff moving through the pay spines.

The net cash requirement is higher than last year by £300.1 million. The main factors that have increased the request are:

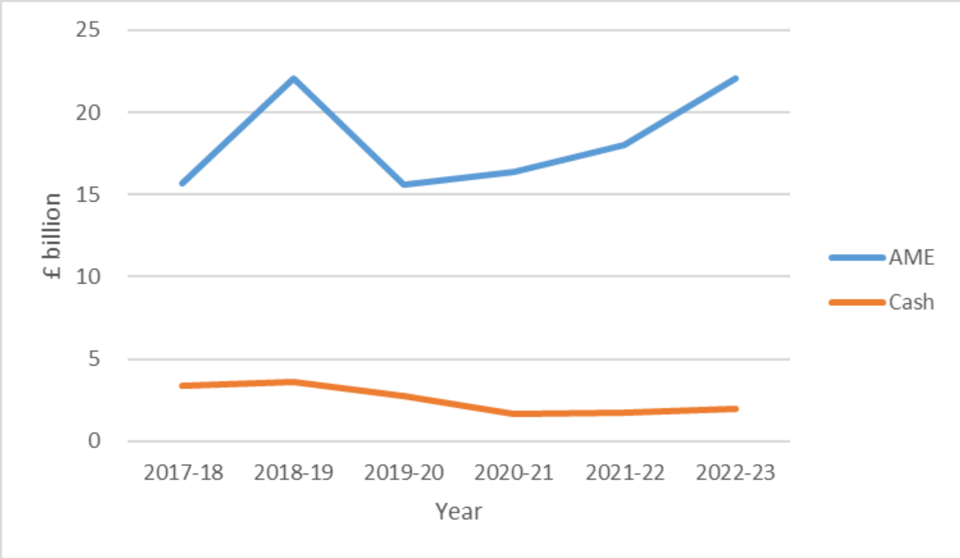
- Contributions received have increased by £265.8 million as described above, decreasing the cash requirement.

- Benefit payments have increased by £579.7 million predominantly due to the annual pension increase linked to CPI inflation which was 3.1% for 2022-23. There has also been an increase in the overall number of pensions in payment and an increase to the survivor benefit payments as a result of remedy payments in relation to the ruling in the Goodwin legal case.

- The movement in receivables has decreased by £38.8 million compared with 2021-22, due to the increased onboarding of employers to monthly collection. The effect of this is still present in 2022-23 as receivables continue to increase but it is at a slower rate than the previous year.

Spending Trends

The charts below show overall spending trends for the last five years and plans presented in the Supplementary Estimate for 2022-23



R-AME was particularly high in 2018-19 due to a £7,000 million provision made in respect of the McCloud-Sargeant legal challenge.

Administration Costs and Efficiency Plans

The costs of administering the scheme are funded via a charge to Employers; this is currently 0.08% of their pensionable pay bill. The costs of administration are forecast to be £31.4 million with the expected charge to Employers being £20.1 million.

Scheme administration costs have increased this year due to additional activity associated with the delivery of remedies to scheme provisions in response to the McCloud-Sargeant and Goodwin legal challenges; additional improvements to the Scheme and support to the procurement exercise to secure administration services from October 2025.

Spending Detail

Explanation of Changes in Spending

			Resource AME				
			Supp. Estimate	*Main Estimate*	*Change from Main Estimate*		*is change significant? (>£10m & 10%) see explanation, note*
Subheads	**Description**	**Detail**	*£ million*	*£ million*	*£ million*	*%*	
Resource AME	Expenditure	*Current Service costs*	22,873.9	22,786.7	87.2	0.4%	
		Interest on scheme liabilities	8,497.4	8,442.6	54.9	0.6%	
		Enhancements	3.5	3.0	0.5	15.3%	
		Other payments	1.2	1.1	0.1	11.2%	
		Increase in liabilities due to Transfers in	12.5	15.5	(3.0)	-19.4%	
		Increase in premature retirement provision	3.1	1.8	1.4	76.3%	
		Interest on premature retirement provision	(40.4)	(0.9)	(39.5)	4533.2%	1
		Administration fee	31.5	20.0	11.5	57.4%	2
	Sub total		**31,382.7**	**31,269.8**	**112.9**	**0.36%**	
Resource AME	Income	*Employer contributions*	(6,559.2)	(6,534.2)	(25.0)	0.4%	
		Employee contributions	(2,619.2)	(2,633.3)	14.1	-0.5%	
		Transfers in	(12.5)	(15.5)	3.0	-19.4%	
		Other income	(0.1)	(0.1)	0.0	-12.8%	
		Administration levy	(20.1)	(22.0)	1.9	-8.5%	
		PRC contributions	(0.7)	(1.8)	1.1	-60.5%	
			(9,211.8)	**(9,206.9)**	**(4.9)**	**0.1%**	
AME	**Net Resource**		**22,170.9**	**22,062.9**	**108.0**	**0.5%**	
Cash	**Net Cash Requirement**		**1,984.4**	**2,533.2**	**(548.8)**	**-21.7%**	3

Differences which are above 10% and £10 million are explained below:

1. The movement in the interest on premature retirement provision is due to change in the general provisions discount rates prescribed by HMT. The rates are revised each year and any change leads to a "step change" in the liability, which is released through income and expenditure. Rates can go both up and down leading to either a positive or negative charge.

2. Administration Fees have increased by £11.5 million, due to additional activity associated with the delivery of remedies to scheme provisions in response to the McCloud-Sargeant and Goodwin legal challenges; additional improvements to the Scheme and support to the procurement exercise to secure administration services from October 2025.

3. The reduction in the net cash requirement is primarily because of the effect of the Goodwin Remedy payments being over-estimated at the Main Estimate stage. Pension payments have reduced due to fewer than expected retirements in the year leading to lower lump sum payments and lower volumes of pensions in payment.

Contingent Liabilities

There were no contingent liabilities disclosed in the 2021-22 Annual Report and Accounts and none have been identified in the 2022-23 financial year.

There is a remote contingent liability disclosed as, in the unlikely event of a default by the approved Additional Voluntary Contributions provider, The Prudential, the Scheme will guarantee pension payments. The potential liability at 31 March 2022 was estimated at £41 million per annum. This guarantee does not apply to members who make payments to other institutions offering Free Standing AVCs.

Estimated Scheme Liabilities

The valuation of scheme liabilities published in March 2019 was £196.1 billion.[1] The valuation was based on 727,000 active members, 523,000 deferred members and 692,000 retired members.

For Annual Report and Accounts purposes, the Scheme Actuary updates this estimate under *IAS19 – Employee Benefits*. The estimated liability in the 2021-22 Annual Report and Accounts was £532.3 billion.[2]

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[1] The full address of the website is: https://www.teacherspensions.co.uk/-/media/documents/member/documents/news-items/teachers-pension-scheme-actuarial-valuation-2016.ashx?rev=1d463cd3f4344c199ca0c2bcf193dc90&hash=D90840D6F4AF06461F6D927C4E6265B0

[2] The full address of the website is https://www.gov.uk/government/publications/teachers-pension-scheme-annual-accounts-2021-to-2022