Department for Education

Teachers' Pension Scheme Supplementary Estimate 2024-25

Memorandum to the Education Select Committee

January 2024

Teachers’ Pension Scheme Supplementary Estimate 2024-25

Contents

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; retirement volumes; 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.

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)**		**Change since the original budget this year (Main Estimate)**		**Change since the final outturn for last year**	
		£ million	**%**	**£ million**	**%**
Net AME Resource	9,287.2	29.6	0.3%	(1,553.9)	(14.3%)
Net Cash Requirement	1,411.2	341.7	31.9%	(636.4)	(31.1%)

Further details can be seen on page 6.

Key Drivers of Spending Changes since Last Year

Resource AME

The provision sought under R-AME is lower than last year's outturn by £1,553.9 million, with the most significant changes being described below.

The main factors that have reduced the resource request:

- Current Service costs are £1,202.4 million lower. The underlying rate used to calculate the current service cost, prescribed by the Scheme Actuary, decreased in 2024-25 to 22.1% of the pensionable pay bill (2023-24: 27.3%) driven by changes to the underlying interest rates. However, the increase in contributions receipts (noted below) increases the current service costs slightly.

- Contributions have increased by £2,050.5 million. From 1 September 2024 there was a pay increase of 5.5% for all teachers. Increases in the pensionable pay bill led to increases in contributions to the Scheme. The employer's contribution rate also increased to 28.6% in 2024-25 (2023-24: 23.6%)

The main factor that has increased the resource request:

- Interest on Scheme liabilities increased by £1,697.6 million due to an increase in the interest rate set by HM Treasury to 5.10% in 2024-25 (2023-24: 4.15%). Most of the interest cost is calculated against the opening actuarial liability which decreased to £278.8 billion in 2025-25 (2023-24: £303.2 billion). Despite this decrease to the overall liability, the increase in the interest rate means that the interest charge has increased.

Net Cash Requirement

The net cash requirement is lower than last year by £636.4 million. The main factor that has reduced the request is:

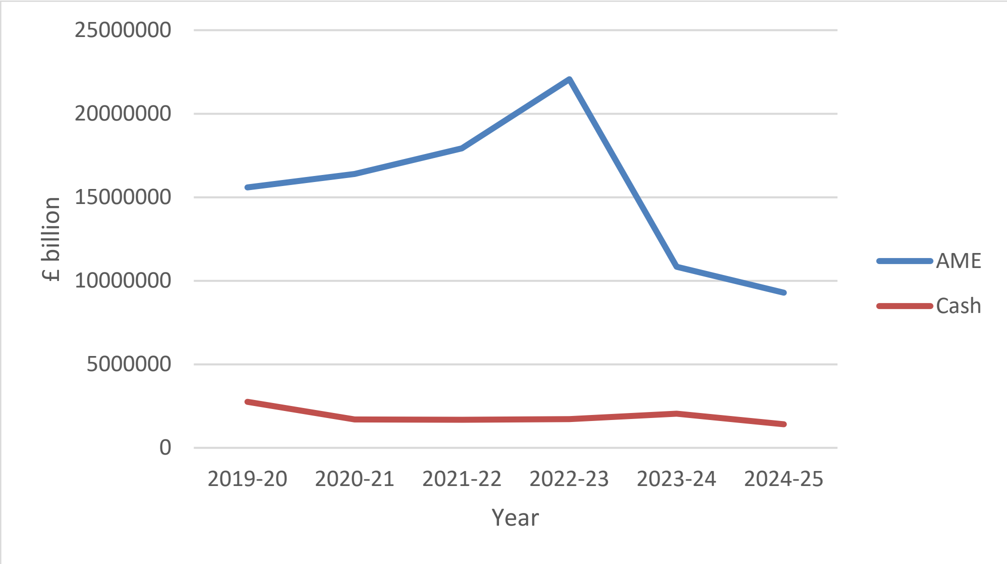
- Contributions receivable have increased by £2,050.5 million as described above. After offsetting a rise of £107.9 million in the contribution's debtor, itself linked to the increase in contributions due, contributions received have increased by £1,942.6 million, decreasing the cash requirement.

The main factor increasing the requirement is:

- Benefit payments have increased by £1,290.5 million predominantly due to the annual pension increase linked to CPI inflation which was 6.7% for 2024-25 (2023-24: 10.1%) but also driven by the inclusion of some McCloud-Sargeant remedy costs. At the time of the main estimate, we were still awaiting judgment on the appeal which did not conclude until July 2024. We have now considered the trend in changing member behaviour towards greater lump sums being taken at retirement. This is largely a cash issue as a R-AME provision was first included in 2018-19.

Spending Trends

The charts below show overall spending trends for the last five years and plans presented in the Supplementary Estimate for 2024-25:



R-AME has fallen significantly since 2022-23 as a result of changes in the Current Service Cost rate prescribed by the Scheme Actuary, from 83.7% in 2022-23 to 27.3% in 2023-24 and 22.1% in the current year.

Administration Costs and Efficiency Plans

The costs of administering the scheme are funded via a charge to employers and is currently 0.08% of their pensionable pay bill. The costs of administration are forecast to be £47.1 million with the expected charge to employers being £24.1 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, particularly around the transitional protection element of McCloud-Sargeant. There have also been costs associated with additional improvements to the Scheme and to support the commencement of activity associated with the transition of suppliers of the administration services contract from Capita to Tata Consultancy Services from October 2025.

Spending Detail

Explanation of Changes in Spending from Main Estimate

			Resource AME				
			Main Estimate	*Supp Estimate*	*Change from Main Estimate*		*is change significant? (>£10m & 10%) see explanation, note*
Subheads	**Description**	**Detail**	*£ million*	*£ million*	*£ million*	*%*	
Resource	Expenditure						
AME		*Current Service costs*	6,756.6	6,893.4	136.8	2.0%	
		Interest on scheme liabilities	14,241.2	14,202.9	(38.3)	(0.3)%	
		Enhancements	22.3	16.5	(5.8)	(26.0)%	
		Other payments	1.2	1.3	0.1	8.3%	
		Increase in liabilities due to Transfers in	10.5	14.1	3.6	34.3%	
		Increase in premature retirement provision	1.3	2.0	0.7	53.8%	
		Interest on premature retirement provision	0.7	(4.7)	(5.4)	(771.4)%	
		Administration fee	35.0	47.1	12.1	34.6%	1
	Sub total		21,068.8	21,172.6	103.8	0.5%	
Resource	Income	*Employer contributions*	(8,783.5)	(8,920.9)	(137.4)	1.6%	
AME		*Employee contributions*	(2,992.0)	(2,925.4)	66.6	(2.2)%	
		Transfers in	(10.5)	(14.1)	(3.6)	34.3%	
		Other income	(0.1)	(0.1)	0.0	0.0%	
		Administration levy	(23.8)	(24.1)	(0.3)	1.3%	
		PRC contributions	(1.3)	(0.8)	0.5	(38.5)%	
	Sub total		(11,811.2)	(11,885.4)	(74.2)	0.6%	

AME	**Net Resource**	**9,257.6**	**9,287.2**	**29.6**	**0.3%**	
Cash	**Net Cash Requirement**	**1,069.5**	**1,411.2**	**341.7**	**31.9%**	2

Differences from the Main Estimate which are above 10% and £10 million are explained below:

1. The Administration costs have increased as a consequence of additional activity associated with the delivery of remedy payments in response to the McCloud-Sargeant legal ruling, and commencement of activity to transition administration services to the new supplier from October 2025.

2. The Net Cash Requirement has increased to reflect to the updated forecast of the timing of the McCloud-Sargeant remedy payments, with a greater number expected to be paid in 2024-25 than originally predicted. There remains uncertainty over the timing and value of the payments as the Scheme is reliant on individual members' decisions.

Remote Contingent Liability

In the unlikely event of a default by the approved Additional Voluntary Contribution (AVC) provider, the Secretary of State for Education will guarantee AVC payments. Prudential is unable to confirm the total liability for all future years and is therefore considered an unquantifiable remote contingent liability. For information, the liability for the first year is £55 million as per the 2023-24 annual report and accounts, (2022-23: £44 million). This 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 October 2023 was £262.2 billion.[1] The valuation was based on 721,000 active members, 645,000 deferred members and 739,000 retired members

For Annual Report and Accounts purposes, the Scheme Actuary updates this estimate under *IAS19 – Employee Benefits*. The estimated liability in the 2023-24 Annual Report and Accounts was £278.8. billion.[2]

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[1] The full address of the website is: https://www.teacherspensions.co.uk/-/media/documents/member/documents/factors/valuation/tps-ew-2020-valuation-results-report---26_10_23-(002).ashx?rev=aba4c7a4288a480487ee087589a8eda6&hash=732241CC77819285E35B0F764486A6E0

[2] The full address of the website https://www.gov.uk/government/publications/teachers-pension-scheme-annual-accounts-2023-to-2024