



Department  
for Education

# **Teachers' Pension Scheme Supplementary Estimate 2020-21**

## **Memorandum to the Education Select Committee**

**January 2021**

# Teachers' Pension Scheme Supplementary Estimate 2020-21

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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 (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 **Resource AME** sought under the Teachers' Pension Scheme 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<br>Amounts sought this year (£ million) |          | Compared to original<br>budget this year (Main<br>Estimate) |        | Compared to the final<br>outturn for last year |        |
|--|----------|---|--------|--|--------|
|  |          | £ million   | %      | £ million                                      | %      |
| Net AME Resource   | 16,481.4 | (1,390.4)   | (7.8)  | (220.7)  | (1.3)  |
| Net Cash Requirement                                       | 1,764.4  | (280.6)   | (13.7) | (990.8)  | (36.0) |

Further details can be seen on page 6.

## Key Drivers of Spending Changes since Last Year

The provision sought under Resource AME is lower than last year by £220.7 million, with the most significant changes being described below.

The main factor that has increased the resource request:

- Current Service costs are £3,359.5 million higher. The underlying rate used to calculate the current service cost, prescribed by the scheme Actuary, was increased in 2020-21 to 65.80% from 54.20% in 2019-20.

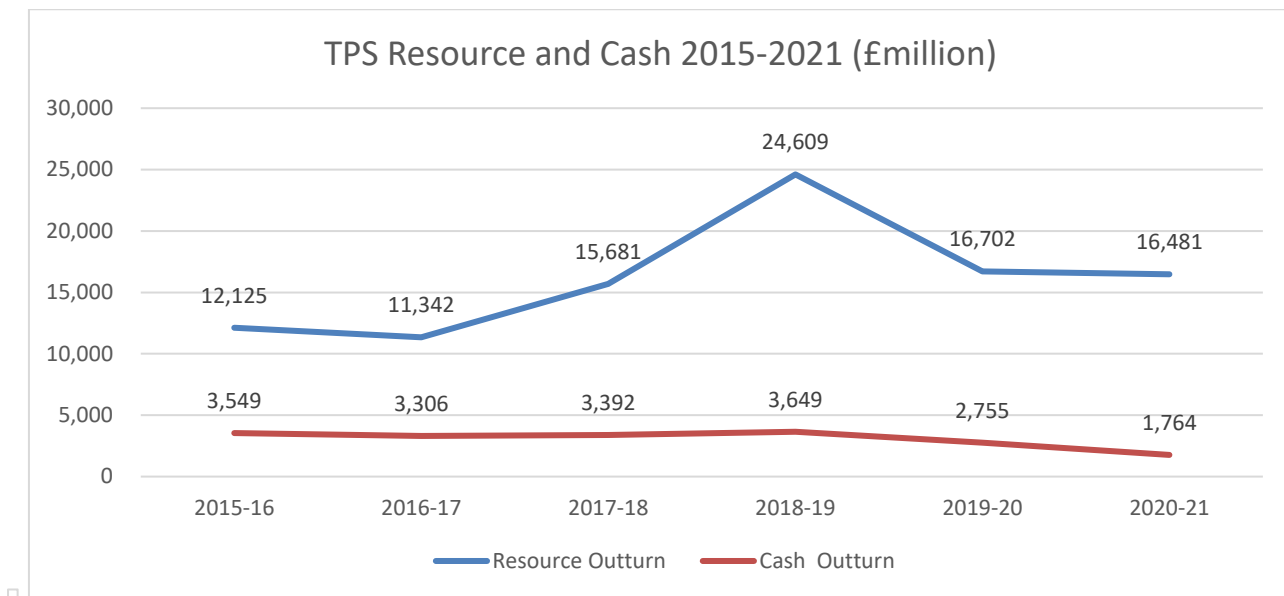
The main factors that have decreased the resource request:

- Interest on Scheme liabilities decreased by £2,535.2 million due to a change in the interest rate set by HM Treasury from 2.90% to 1.80%.
- Employer's Contributions are £909.5 million higher. The 2016 scheme valuation completed by the scheme Actuary determined that the Employer's contribution rate should be increased from 16.4% to 23.6% of pensionable pay from 1 September 2019. The full year 2020-21 will be received at the higher rate compared to only seven months in 2019-20. In addition, the average pay award for teachers in September 2020 was 3.1% and this has had an impact on both Employee and Employer contributions.
- Employee's Contributions are £76.2 million higher. The average pay award for teachers in September 2020 was 3.1% and this has had an impact on both Employee and Employer contributions.
- Past Service costs are £51.7 million lower. This is mainly due to a number of one-off provisions that were made in 2019-20 that are not present in 2020-21. These related to Guaranteed Minimum Pension (£1,750 million), the Goodwin legal challenge (£1,700 million) less the McCloud-Sargeant legal challenges (reduction of £3,400 million).

The net cash requirement is lower than last year by £990.8 million. This is primarily due to the changes in Employers and Employees contributions described above.

## Spending Trends

The charts below show overall spending trends for the last five years and plans presented in the Supplementary Estimate for 2020-21.



Resource 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 levy on Employers; this is currently 0.08% of pensionable salary. The costs of administration are forecast to be £17.1 million with the expected levy on Employers being £20.6 million.

## Spending Detail

### Explanation of Changes in Spending

| Subheads     | Description          | Detail   | Resource AME          |                      |                           |               | is change significant? (>£10m & 10%)<br>see explanation, note |
|--------------|----------------------|--|-----------------------|----------------------|---------------------------|---------------|---|
|              |                      |  | <i>Supp. Estimate</i> | <i>Main Estimate</i> | change from Main Estimate |               |   |
|              |                      |  | £ million             |                      |                           | %             |   |
| Resource AME | Expenditure          | <i>Current Service costs</i>                       | 17,155.7              | 18,490.3             | (1,334.6)                 | (7.2)         | 1   |
|              |                      | <i>Interest on scheme liabilities</i>              | 7,945.0               | 8,015.6              | (70.6)                    | (0.9)         |   |
|              |                      | <i>Enhancements</i>                                | 22.7                  | 27.3                 | (4.6)                     | (16.8)        |   |
|              |                      | <i>Other payments</i>                              | 1.2                   | 1.9                  | (0.7)                     | (36.8)        |   |
|              |                      | <i>Increase in liabilities due to Transfers in</i> | 15.2                  | 17.6                 | (2.4)                     | (13.6)        |   |
|              |                      | <i>Increase in premature retirement provision</i>  | 6.8                   | 3.1                  | 3.7                       | 119.4         |   |
|              |                      | <i>Interest on premature retirement provision</i>  | (0.2)                 | 1.3                  | (1.5)                     | (115.4)       |   |
|              |                      | <i>Administration fee</i>                          | 17.1                  | 18.2                 | (1.1)                     | (6.0)         |   |
|              | Sub total            |  | <b>25,163.5</b>       | <b>26,575.3</b>      | <b>(1,411.8)</b>          | <b>(5.3)</b>  |   |
| Resource AME | Income               | <i>Employer contributions</i>                      | (6,153.1)             | (6,154.8)            | 1.7                       | 0.0           |   |
|              |                      | <i>Employee contributions</i>                      | (2,490.7)             | (2,507.0)            | 16.3                      | 0.7           |   |
|              |                      | <i>Transfers in</i>                                | (15.2)                | (17.6)               | 2.4                       | 13.6          |   |
|              |                      | <i>Other income</i>                                | (0.2)                 | (0.2)                | 0.0                       | 0.0           |   |
|              |                      | <i>Administration levy</i>                         | (20.6)                | (20.9)               | 0.3                       | 1.4           |   |
|              |                      | <i>PRC contributions</i>                           | (2.4)                 | (3.1)                | 0.7                       | 22.6          |   |
|              |                      |  | <b>(8,682.2)</b>      | <b>(8,703.6)</b>     | <b>21.4</b>               | <b>0.2</b>    |   |
| AME          | Net Resource         |  | <b>16,481.3</b>       | <b>17,871.7</b>      | <b>(1,390.4)</b>          | <b>(7.8)</b>  |   |
| Cash         | Net Cash Requirement |  | <b>1,764.4</b>        | <b>2,045.0</b>       | <b>(280.6)</b>            | <b>(13.7)</b> |   |

Although there are no significant changes in the above table (both greater than £10 million and 10%), as the change in Current Service cost is so large an explanation is given below;

1. The underlying rate used to calculate current service costs is provided by the scheme Actuary on an annual basis. During the main estimate the Actuary advised a rate of 70.9% of pensionable pay. However, following the publication of the consultation on the remedy of the McCloud-Sargeant legal challenge, the Actuary was able to revisit their assumptions and provide an update estimate of the scheme liabilities. This also led to a revised current service cost rate of 65.8% of pensionable pay.

## **Contingent Liabilities**

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 2020 was estimated at £31.6 million per annum. This guarantee does not apply to members who make payments to other institutions offering Free Standing AVCs.

There are currently two legal challenges against public sector pension schemes. Due to the uncertainty regarding the outcomes or read across to other schemes it has been agreed that these are too remote to make a provision for.

## Estimated Scheme Liabilities

The [valuation of scheme liabilities](#) published in March 2019 was £196.1 billion<sup>1</sup>. 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 [2019-20 Annual Report and Accounts](#) was £432.2 billion<sup>2</sup>.

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<sup>1</sup> 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>

<sup>2</sup> The full address of the website is: [Teachers' pension scheme: annual accounts 2019 to 2020 - GOV.UK \(www.gov.uk\)](https://www.gov.uk/teachers-pension-scheme-annual-accounts-2019-to-2020)