



Department
for Education

Teachers' Pension Scheme Supplementary Estimate 2025-26

Memorandum to the Education Select Committee

January 2026

Teachers’ Pension Scheme Supplementary Estimate 2025-26

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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; 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		Change since the original budget this year (Main Estimate)		Change since the final outturn for last year	
Amounts sought this year (£ million)					
		£ million	%	£ million	%
Net AME Resource	9,807.9	78.2	0.8%	636.1	6.9%
Net Cash Requirement	1,163.8	75.8	7.0%	11.9	1.0%

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 higher than last year's outturn by £636 million, with the most significant changes being described below.

The opening Scheme liability on which the interest charge is calculated rose from £278.8 billion in 2024-25 to £290.7 billion in 2025-26. This was coupled with an increase in the interest rate from 5.10% to 5.15%. This has led to an increase of £752 million in the interest charged.

The increase in Employer pay bill together with a small increase in the Current Service Cost rate has led to an increase of £518 million.

The Contributions income has increased by £632 million, due to pay awards and a resetting of the Employee tiers. This reduces the Resource requirement and partially offsets the increases above.

There are some smaller changes on other lines accounting for the balance.

Net Cash Requirement

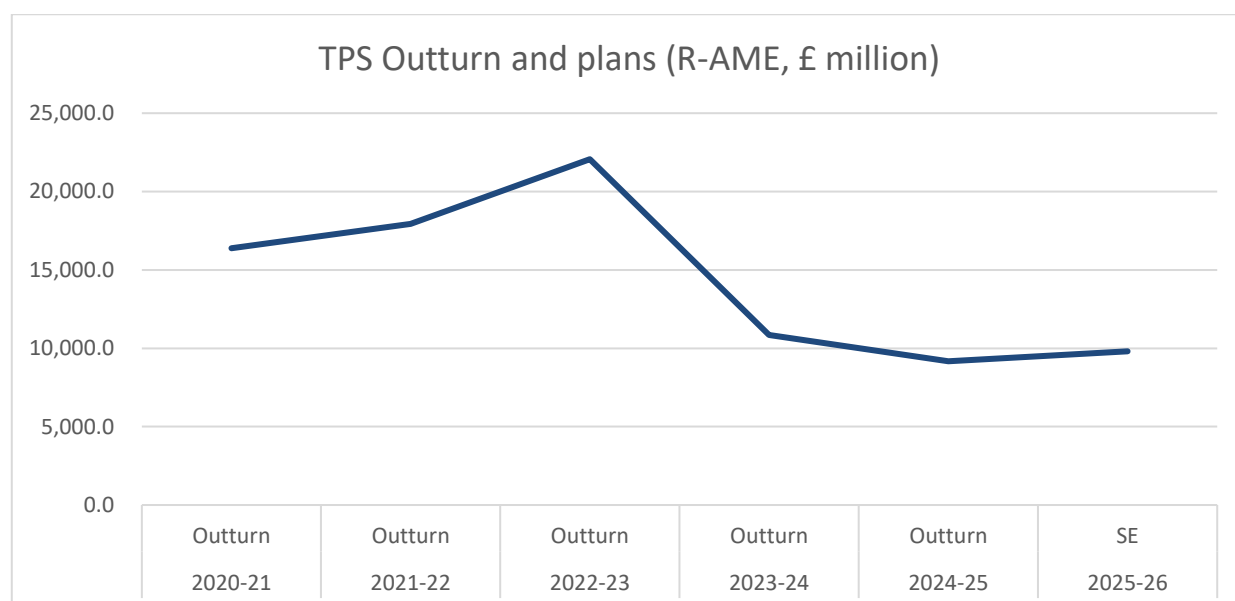
The net cash requirement is higher than last year by £12 million. This is broadly in line across the two years. There are several drivers behind this but is essentially due to an increase in contributions being offset by increases in benefit payments.

Contributions have increased due to both the annual pay award and the resetting of the Employer tiers.

Benefit payments have increased due to the annual pensions increase together with re-profiling of the Public Service Pension Remedy.

Spending Trends

The charts below show overall spending trends for the last five years and plans presented in the Supplementary Estimate for 2025-26:



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% (2022-23) to 22.1% (2024-25) and a slight increase to 22.2% for current year (2025-26)

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 £47.2 million with the expected charge to employers being £25.6 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 June 2026.

Spending Detail

Explanation of Changes in Spending from Main Estimate

The table below shows the Teachers' Pension Scheme spending plans for Resource AME and Net Cash compare with the Main Estimate.

DescriptionDetail		Resource AME				Is change significant? See note
		This Year Main Estimate 2025-26	This Year Supplementar y Estimate 2025-26	Change from last forecast		
		£m	£m	£m	%	
Expenditure	Current service cost	7,157.7	7,369.4	211.7	2.9%	1
	Interest On Scheme Liabilities	14,879.1	14,802.8	-76.3	(0.5%)	
	Enhancements	19.5	17.0	-2.5	(14.7%)	
	Other costs	1.1	1.2	0.1	8.3%	
	Transfers In	13.9	10.9	-3.0	(27.5%)	
	Increase in premature retirement provision	1.0	12.8	11.8	92.2%	
	Interest on premature retirement provision	2.6	0.7	-1.9	(271.4%)	
	Administration Charge	46.0	47.3	1.3	2.7%	
Sub total		22,120.9	22,262.1	141.2	0.6%	
Income	Employers Contributions	-9,221.2	-9,269.4	-48.2	0.5%	
	Employees Contributions	-3,129.2	-3,147.9	-18.7	0.6%	
	Transfers In	-13.9	-10.9	3.0	(27.5%)	
	Other Income	0.0	0.0	0.0	0.0%	
	Other Income - Admin Fee	-25.8	-25.6	0.2	(0.8%)	
	PRC Contributions	-1.0	-0.3	0.7	(233.3%)	
	Sub total	-12,391.1	-12,454.1	-63.0	0.5%	
Net AME Resource		9,729.8	9,808.0	78.2	0.8%	
Net Cash		1,088.0	1,163.8	75.8	6.5%	

Differences from the Main Estimate which are above either both 10% and £10 million or 5% and £200 million are explained below:

1. Increase on Premature Retirement Provision – A one off charge has been made to the Premature Retirement Compensation provision in respect of a prior year adjustment.

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 £69 million as per the 2024-25

annual report and accounts, (2023-24: £55 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 [2024-25 Annual Report and Accounts](#) was £278.8. billion.²

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](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://assets.publishing.service.gov.uk/media/687610ae55c4bd0544dcae36/DfE_TPS_Annual_Report_2024-25.pdf