



Department  
for Education

# **Teachers' Pension Scheme (England and Wales)**

## **Main Estimate 2021-22**

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

**March 2021**

# Teachers' Pension Scheme Main Estimate 2021-22

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## Overview

### 1.1 Objectives

The Teachers' Pension Scheme (England and Wales) (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.

### 1.2 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. The scheme consists of largely demand-led expenditure and is dependent on a number of external factors, including decisions made by members of the Scheme. These factors, which are outside the control of the department, include 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.

### 1.3 Comparison of Net Spending Totals Sought

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

| Net Spending Total<br>Amounts sought this year (£ million) |          | Compared to final<br>budget last year<br>(Supplementary<br>Estimate 2020-21) |     | Compared to original<br>budget last year (Main<br>Estimate 2020-21) |       |
|--|----------|--|-----|---|-------|
|  |          | £ million  | %   | £ million   | %     |
| Net AME Resource   | 17,873.8 | 1,392.5  | 8.4 | 2.0   | 0.0   |
| Net Cash Requirement                                       | 1,883.4  | 119.0  | 6.7 | (161.6)   | (7.9) |

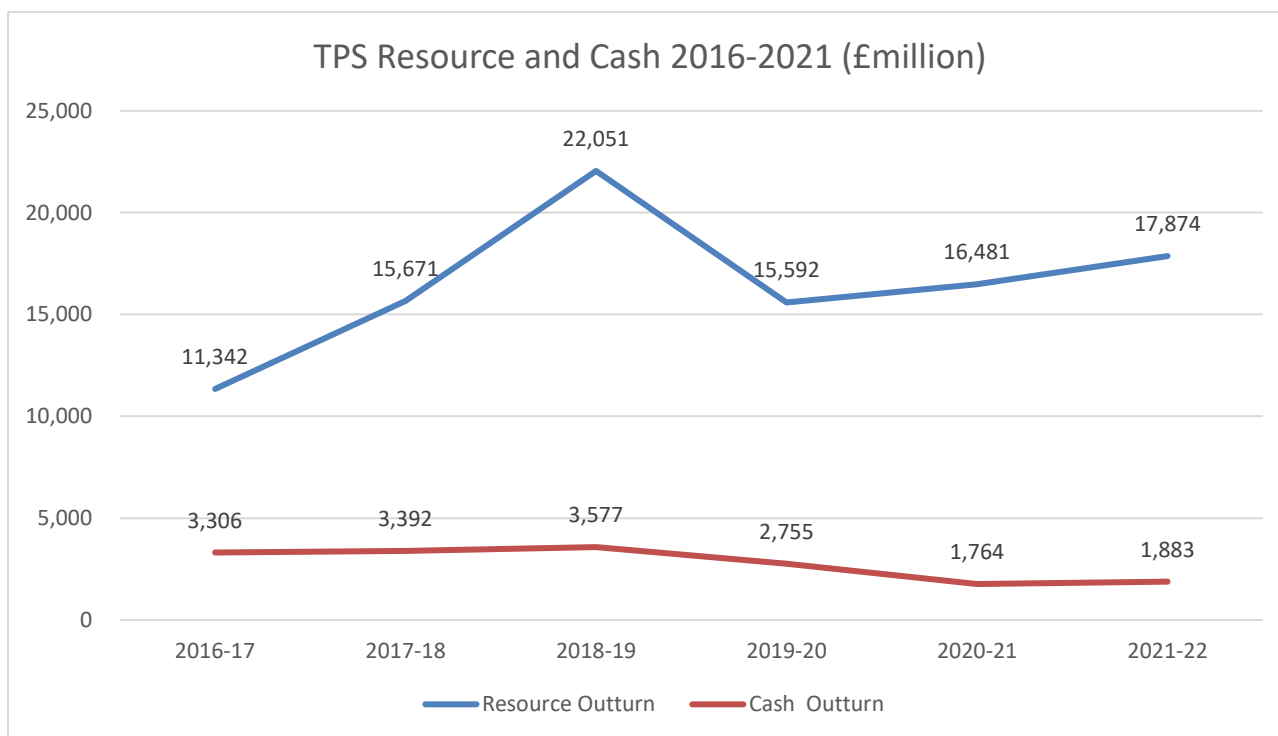
## 1.4 Key Drivers of Spending Changes since Last Year

The provision sought under Resource AME is higher than last year by £1,392.4 million. This is due to a number of significant changes in the year: -

- Current Service costs are £3,361.9 million higher. Upon advice from Government Actuary's Department the rate used for accruing current service costs increased to 77.00% from 65.80% in 2020-21,
- Interest on Scheme liabilities decreased by £1,765.9 million. This is due to a change in the interest rate set by HM Treasury to 1.25% from 1.80% in 2020-21.
- Employer's and Employee's Contributions increased by £198.7 million. The increase in forecast is mainly due to teachers' pay awards from September 2020.

## 1.5 Spending Trends

The charts below show overall spending trends for the last five years and plans presented in Estimates for 2021-22, and current future plans.



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

## 1.6 Administration Costs and Efficiency Plans

The costs of administering the scheme are funded via a levy on Employers; currently 0.08% of pensionable salary. The costs of administration are forecast to be £18 million with the expected levy being £21.3 million.

## Spending Detail

### 2.1 Explanation of Changes in Spending

| Subheads     | Description          | Detail   | Resource AME          |                                |                       |             | is change significant? (>£10m & 10%) |
|--------------|----------------------|--|-----------------------|--------------------------------|-----------------------|-------------|--------------------------------------|
|              |                      |  | Main Estimate 2021-22 | Supplementary Estimate 2020-21 | change from last year |             |                                      |
|              |                      |  | £ million             |                                |                       | %           | see explanation, note                |
| Resource AME | Expenditure          | <i>Current Service costs</i>                       | 20,517.6              | 17,155.7                       | 3,361.9               | 19.6%       | <b>1</b>                             |
|              |                      | <i>Interest on scheme liabilities</i>              | 6,179.1               | 7,945.0                        | (1,765.9)             | (22.2%)     | <b>2</b>                             |
|              |                      | <i>Enhancements</i>                                | 22.6                  | 22.7                           | (0.1)                 | (0.4%)      |                                      |
|              |                      | <i>Other payments</i>                              | 1.3                   | 1.2                            | 0.1                   | 8.3%        |                                      |
|              |                      | <i>Increase in liabilities due to Transfers in</i> | 20.9                  | 15.2                           | 5.7                   | 37.5%       |                                      |
|              |                      | <i>Increase in premature retirement provision</i>  | 1.1                   | 6.8                            | (5.7)                 | (83.8%)     |                                      |
|              |                      | <i>Interest on premature retirement provision</i>  | (0.8)                 | (0.2)                          | (0.6)                 | 300.0%      |                                      |
|              |                      | <i>Administration fee</i>                          | 18.0                  | 17.1                           | 0.9                   | 5.3%        |                                      |
|              | Sub total            |  | <b>26,759.8</b>       | <b>25,163.5</b>                | <b>1,596.3</b>        | <b>6.3</b>  |                                      |
| Resource AME | Income               | <i>Employer contributions</i>                      | (6,288.5)             | (6,153.1)                      | (135.4)               | 2.2%        |                                      |
|              |                      | <i>Employee contributions</i>                      | (2,554.0)             | (2,490.7)                      | (63.3)                | 2.5%        |                                      |
|              |                      | <i>Transfers in</i>                                | (20.9)                | (15.2)                         | (5.7)                 | 37.5%       |                                      |
|              |                      | <i>Other income</i>                                | (0.2)                 | (0.2)                          | 0.0                   | 0.0%        |                                      |
|              |                      | <i>Administration levy</i>                         | (21.3)                | (20.6)                         | (0.7)                 | 3.4%        |                                      |
|              |                      | <i>PRC contributions</i>                           | (1.1)                 | (2.4)                          | 1.3                   | (54.2%)     |                                      |
|              |                      |  | <b>(8,886.0)</b>      | <b>(8,682.2)</b>               | <b>(203.8)</b>        | <b>2.3%</b> |                                      |
| AME          | Net Resource         |  | <b>17,873.8</b>       | <b>16,481.3</b>                | <b>1,392.5</b>        | <b>8.4%</b> |                                      |
| Cash         | Net Cash Requirement |  | <b>1,883.4</b>        | <b>1,764.4</b>                 | <b>119.0</b>          | <b>6.7%</b> |                                      |

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

1. Current Service Costs: The increase in current service costs of £3,361.9 million is largely due to the increase in the standard contributions rate which amounted to £2,984.4 million (17.40%), the difference of £377.50 million (2.20%) being attributed to pay awards and changes to membership.
2. Interest on Scheme Liabilities: As a result of the nominal discount rate decreasing from 1.80% in 2020-21 to 1.25% in 2021-22 there is a net decrease in scheme liabilities.

## 2.2 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.

## 2.3 Estimates Scheme Liabilities

The [Actuarial valuation of scheme liabilities at 31 March 2016](#), 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: <https://www.gov.uk/government/publications/teachers-pension-scheme-annual-accounts-2019-to-2020>