



Department
for Education

Teachers' Pension Scheme Supplementary Estimate 2019-20

Memorandum to the Education Select Committee

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Teachers' Pension Scheme Supplementary Estimate 2019-20

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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 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	18,509.0	4,085.9	28.3	(3,541.7)	(16.1)
Net Cash Requirement	2,835.8	(281.2)	(9.1)	(741.0)	(20.7)

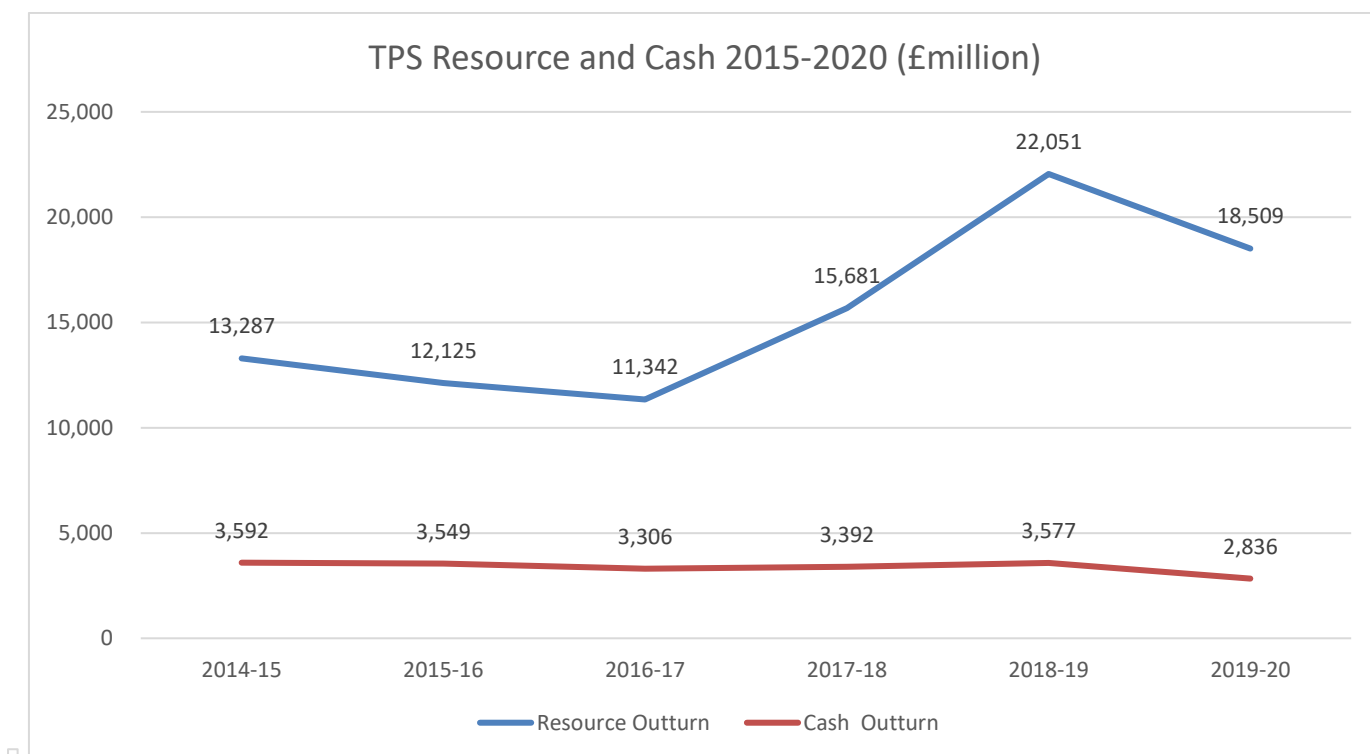
Key Drivers of Spending Changes since Last Year

The provision sought under Resource AME is lower than last year (£3,541.7 million). This is due to a number of significant changes in the year: -

- Past Service costs are £5,250.7 million lower. In 2018-19 there was a past service cost of £7,000.0 million in relation to the McCloud-Sargeant legal ruling. In the 2019-20 Estimate there is a past service cost of £1,750.0 million in relation to the future solution to GMP Indexation and Equalisation currently being considered.
- Current Service costs are £1,661.3 million higher. The underlying rate used to calculate the current service cost was increased in 2019-20 following the McCloud-Sargeant legal ruling from 49.30% in 2018-19 to 54.20%.
- Interest on Scheme liabilities increased by £1,316.6 million due to a change in the interest rate set by HM Treasury from 2.55% to 2.90%.
- Employer's Contributions are £1,209.4 million higher. The 2016 scheme valuation determined that the Employer's contribution rate should be increased from 16.4% to 23.6% of pensionable pay from 1 September 2019.

Spending Trends

The charts below show overall spending trends for the last five years and plans presented in the Supplementary Estimate for 2019-20.



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 £17.3 million with the expected levy on Employers being £22.2 million.

Spending Detail

Explanation of Changes in Spending

Subheads	Description	Detail	Resource AME				is change significant? (>£10m & 10%) see explanation, note
			<i>Supp. Estimate</i>	<i>Main Estimate</i>	change from Main Estimate		
			£ million			%	
Resource AME	Expenditure	<i>Current Service costs</i>	13,850.6	11,718.5	2,132.1	18.2	1
		<i>Interest on scheme liabilities</i>	10,563.6	10,330.3	233.3	2.3	
		<i>Enhancements</i>	1,777.0	29.8	1,747.2	5,863.1	2
		<i>Other payments</i>	17.4	2.4	15.0	625.0	3
		<i>Increase in liabilities due to Transfers in</i>	15.9	22.0	(6.1)	(27.7)	
		<i>Increase in premature retirement provision</i>	4.7	4.4	0.3	6.8	
		<i>Interest on premature retirement provision</i>	(0.2)	(0.6)	0.4	(66.7)	
		<i>Administration fee</i>	17.3	17.9	(0.6)	(3.4)	
	Sub total		26,246.3	22,124.7	4,121.6	18.6	
Resource AME	Income	<i>Employer contributions</i>	(5,264.2)	(5,213.8)	(50.4)	1.0	
		<i>Employee contributions</i>	(2,401.8)	(2,437.6)	35.8	(1.5)	
		<i>Transfers in</i>	(15.9)	(22.0)	6.1	(27.7)	
		<i>Other income</i>	(0.2)	(0.6)	0.4	(66.7)	
		<i>Administration levy</i>	(22.2)	(20.2)	(2.0)	9.9	
		<i>PRC contributions</i>	(3.1)	(4.4)	1.3	(29.5)	
			(7,707.4)	(7,698.6)	(8.8)	0.1	
AME	Net Resource		18,538.9	14,426.1	4,112.8	28.5	
Cash	Net Cash Requirement		2,835.8	3,120.0	(284.2)	(9.1)	

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

1. When the Main Estimate was submitted in April 2019 the outcome of the Government's request to appeal against the McCloud-Sargeant ruling was not known. Therefore, the original forecast Current Service Cost rate of 46.3% was used to inform the estimate. On 27 June 2019 the Supreme Court rejected the right to appeal the judgement and, as a result, the Current Service Cost rate for 2019-20 was increased to 54.2% on the advice of the Government Actuary.
2. The interim solution to the Guaranteed Minimum Pension is due to end in 2021. This will either be extended or a new solution implemented. In conjunction with the other public sector pension schemes it was agreed that a provision should be made to reflect the liability given the proximity of the decision.
3. A recent exercise to reconcile Guaranteed Minimum Pension payments with records held by HMRC identified a number of underpayments and overpayments. It was agreed with HMT that these overpayments would be written off. The cost to the scheme was £15 million.

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 2019 was estimated at £29.2 million per annum. This guarantee does not apply to members who make payments to other institutions offering Free Standing AVCs.

There is currently a legal challenge against another pension scheme which relates to a policy regarding freedom to marry. Due to the uncertainty regarding the outcome or read across to other schemes it has been agreed that this is an unquantifiable contingent liability.

Estimates Scheme Liabilities

The valuation of scheme liabilities was £196.1 billion. This valuation was published in March 2019 a copy of which can be found [here](#)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. The estimated liability in the 2018-19 Annual Report and Accounts (published [here](#)²) was £359.5 billion.

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-2017-to-2018>