Department for Education

# Teachers’ Pension Scheme Supplementary Estimate 2021-22

## Memorandum to the Education Select Committee

January 2022

# Teachers' Pension Scheme Supplementary Estimate 2021-22

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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; 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.  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 budget this year (Main Estimate)** | | **Compared to the final outturn for last year** | |
|---|---|---|---|---|---|
| | | **£ million** | **%** | **£ million** | **%** |
| Net AME Resource | 17,999.0 | 125.2 | 0.7 | 1,614 | 9.9 |
| Net Cash Requirement | 1,777.5 | (105.9) | (5.6) | 85.5 | 5.1 |

Further details can be seen on page 6.

## Key Drivers of Spending Changes since Last Year

The provision sought under R-AME is higher than last year by £1,614.0 million, with the most significant changes being described below.

The main factor that has increased the resource request:

- Current Service costs are £3,488.1 million higher. The underlying rate used to calculate the current service cost, prescribed by the scheme Actuary increased in 2021-22 to 77.0% (2020-21: 65.80%)

The main factors that have decreased the resource request:

- Interest on Scheme liabilities decreased by £1,659.4 million due to a reduction in the interest rate set by HM Treasury to 1.25% in 2021-22 (2020-21: 1.80%)

- Contributions have increased by £256.9 million. The pay bands for school teachers increased in September 2020 and 2021-22 is the first full year that this pay is reflected. Pay increases were frozen in September 2021, however there has been a small increase due to staff moving through the pay spines which will be fully reflected in 2022-23.

The net cash requirement is higher than last year by £85.5 million. The main factors that have increased the request are:

- Contributions received have increased by £256.9 million as described above, decreasing the cash requirement

- Benefit payments have increased by £151.9 million due to an increase in the number of pensions in payment and the increase in individual pension values which are increased annually in line with inflation

- Receivables have increased by £113.3 million compared with 2020-21 due to:

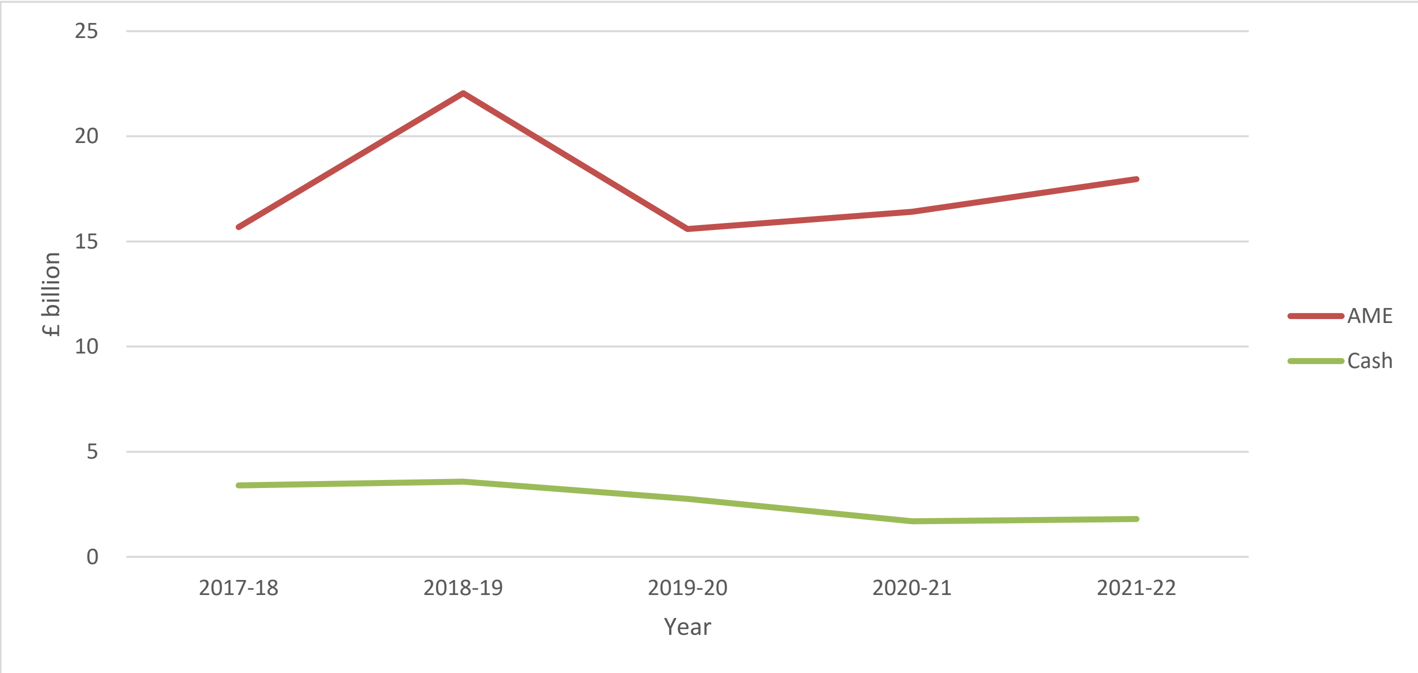
    - £50 million being moved in November 2020 from Scheme Pays payments. This is a scheme whereby the member can elect for the scheme to pay tax payments to HMRC in return for a smaller pension at retirement age. These had been held as receivables and following consultation with HM Treasury (HMT), it was agreed to move these to benefit payments.

    - movement in the general debtors of £63.3 million. We are in the process of transferring employers onto monthly collection where payments will be collected the month following salary payment; historically some of these payments would have been received in the same month.

- Payables have decreased by £45.5 million compared with 2020-21, due to a reduction in the death grants benefit accrual for benefits no longer required.

## Spending Trends

The charts below show overall spending trends for the last five years and plans presented in the Supplementary Estimate for 2021-22.




R-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 £47.8 million with the expected levy on Employers being £21.3 million.

The increase in administration costs this year is due to a challenge from HM Revenue and Customs in respect of VAT treatment of the administration fee.  We are anticipating a decision regarding this before the end of the financial year.

# Spending Detail

## Explanation of Changes in Spending

| Subheads | Description | Detail | Resource AME | | | | |
|---|---|---|---|---|---|---|---|
| | | | *Supp. Estimate* | *Main Estimate* | change from Main Estimate | | is change significant? (>£10m & 10%) see explanation, note |
| | | | £ million | | | % | |
| Resource AME | Expenditure | *Current Service costs* | 20,644.9 | 20,517.6 | 127.3 | 0.6 | |
| | | *Interest on scheme liabilities* | 6,181.4 | 6,179.1 | 2.3 | 0.0 | |
| | | *Enhancements* | 23.2 | 22.6 | 0.6 | 2.7 | |
| | | *Other payments* | 1.3 | 1.3 | 0.0 | 0.0 | |
| | | *Increase in liabilities due to Transfers in* | 15.0 | 20.9 | (5.9) | (28.2) | |
| | | *Increase in premature retirement provision* | 2.8 | 1.1 | 1.7 | 154.5 | |
| | | *Interest on premature retirement provision* | 16.2 | (0.8) | 17.0 | (2,125.0) | 1 |
| | | *Administration fee* | 47.8 | 18.0 | 29.8 | 165.6 | 2 |
| | Sub total | | **26,932.6** | **26,759.8** | **172.8** | **0.6** | |
| | | | | | | | |
| Resource AME | Income | *Employer contributions* | (6,327.5) | (6,288.5) | (39.0) | 0.6 | |
| | | *Employee contributions* | (2,567.8) | (2,554.0) | (13.8) | 0.5 | |
| | | *Transfers in* | (15.0) | (20.9) | 5.9 | (28.2) | |
| | | *Other income* | (0.1) | (0.2) | 0.1 | (50.0) | |
| | | *Administration levy* | (21.3) | (21.3) | 0.0 | 0.0 | |
| | | *PRC contributions* | (1.9) | (1.1) | (0.8) | 72.7 | |
| | | | **(8,933.6)** | **(8,886.0)** | **(47.6)** | **0.5** | |
| AME | Net Resource | | **17,999.0** | **17,873.8** | **125.2** | **0.7** | |
| | | | | | | | |
| Cash | Net Cash Requirement | | **1,777.5** | **1,883.4** | **(105.9)** | **(5.6)** | |

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

1. The movement in the interest on premature retirement provision is due to change in the general provisions discount rates prescribed by HMT. The rates are revised each year and any change leads to a "step change" in the liability, which is released through income and expenditure. Rates can go both up and down leading to either a positive or negative charge.

2. There is an increase in the administration fee in 2021-22 due to a challenge from HMRC in respect of VAT treatment of the administration fee.

## 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 2021 was estimated at £23.1 million per annum. This guarantee 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 March 2019 was £196.1 billion.[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 – Employee Benefits*. The estimated liability in the 2020-21 Annual Report and Accounts was £481.0 billion.[2]

[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-2020-to-2021