



Department
for Education

Teachers' Pension Scheme Main Estimate 2019-20

**Memorandum to the Education Select
Committee**

March 2019

Teachers' Pension Scheme Main 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:

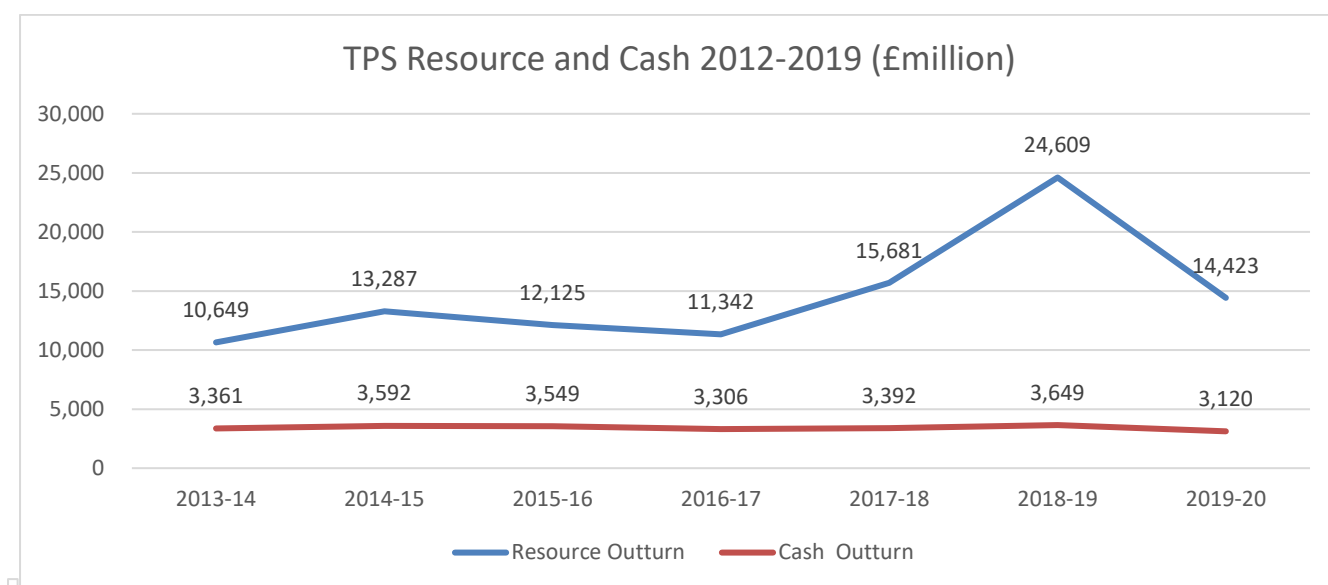
Net Spending Total Amounts sought this year (£ million)		Compared to final budget last year (Supplementary Estimate 2018-19)		Compared to original budget last year (Main Estimate 2018-19)	
		£ million	%	£ million	%
Net AME Resource	14,423.1	(10,205.8)	(41.4)	(688.8)	(4.6)
Net Cash Requirement	3,120.0	(539.3)	(14.7)	(801.9)	(20.4)

Key Drivers of Spending Changes since Last Year

The provision sought under Resource AME is lower than the final budget for last year by £10,205.8 million. The most significant change is a reduction in Past Service Cost provision of £9,500 million. This provision was made in the Supplementary Estimate 2018-19 in respect of the McCloud and Sargeant legal challenge. The decision regarding the right to appeal is due by early April 2019, and any further costs in relation to this ruling will be recognised in the Supplementary Estimate 2019-20. There have been no additional costs recognised in this Main Estimate.

Spending Trends

The charts below show overall spending trends for the last five years and plans presented in Estimate for 2018-19, and current future plans.



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 £17.9 million with the expected levy on Employers being £20.3 million.

Spending Detail

Explanation of Changes in Spending

Subheads	Description	Detail	Resource AME				is change significant? (>£10m & 10%) see explanation, note
			Main Estimate 2019-20	Supplementary Estimate 2018-19	change from last year		
			£ million			%	
Resource AME	Expenditure	<i>Current Service costs</i>	11,718.5	12,165.3	(446.8)	(3.7%)	1
		<i>Interest on scheme liabilities</i>	10,330.3	9,347.5	982.8	10.5%	2
		<i>Enhancements</i>	29.8	9,526.6	(9,496.8)	(99.7%)	3
		<i>Other payments</i>	2.4	25.3	(22.9)	(90.5%)	4
		<i>Increase in liabilities due to Transfers in</i>	22.0	20.2	1.8	8.9%	
		<i>Increase in premature retirement provision</i>	4.4	8.8	(4.4)	(50.0%)	
		<i>Interest on premature retirement provision</i>	(0.6)	(36.7)	36.1	(98.4%)	5
		<i>Administration fee</i>	17.9	17.9	0.0	0.0%	
	Sub total		22,124.7	31,074.9	(8,950.2)	(28.8%)	
Resource AME	Income	<i>Employer contributions</i>	(5,213.8)	(4,046.9)	(1,166.9)	(28.8%)	6
		<i>Employee contributions</i>	(2,440.5)	(2,353.1)	(87.4)	(3.7%)	
		<i>Transfers in</i>	(22.0)	(20.2)	(1.8)	(8.9%)	
		<i>Other income</i>	(0.6)	(3.7)	3.1	83.8%	
		<i>Administration levy</i>	(20.3)	(19.4)	(0.8)	(4.1%)	
		<i>PRC contributions</i>	(4.4)	(2.8)	(1.6)	(57.1%)	
			(7,701.6)	(6,446.1)	(1,255.5)	19.5%	
AME	Net Resource		14,423.1	24,628.8	(10,205.7)	(41.4%)	
Cash	Net Cash Requirement		3,120.0	3,659.3	(539.3)	(14.7%)	

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

1. Current Service Costs: As a result of a reduction in the Standard Contributions rate from 49.3% to 46.3% there is a reduction in Current Service Costs. Whilst this is less than 10%, the value is significant.
2. Interest on Scheme Liabilities: As a result of the nominal discount rate increasing from 2.55% to 2.90% there has been a net increase in scheme liabilities.
3. Enhancements: A Past Service Cost provision for £9,500 million was made in the Supplementary Estimate 2018-19 in respect of the McCloud and Sargeant legal challenge. The decision regarding the right to appeal is due by early April 2019, and any further costs in relation to this ruling will be recognised in the Supplementary Estimate 2019-20. There have been no additional costs recognised in this Main Estimate.
4. Other Payments: As a result of the Guaranteed Minimum Pension (GMP) reconciliation project with HMRC a one-off payment of £21.6 million was made in September 2018. There are no further payments expected in 2019-20.
5. Interest on Premature retirement provision: As a result of the change in discount rates applied to the provision there was a reduction of £33 million in the 2018-19 Supplementary Estimate. The new discount rates have been applied throughout 2019-20.
6. Employer contributions: Due to the employer contribution rates increasing in September 2019, from 16.4% to 23.6%, there is an increase of £1,166.9 million in employer contributions.

Contingent Liabilities

The Scheme will guarantee pension payments in the unlikely event of a default by the approved Additional Voluntary Contributions provider, The Prudential. The potential liability at 31 March 2018 was estimated at £37.9 million per annum. This guarantee does not apply to members who make payments to other institutions offering Free Standing AVCs.

Estimates Scheme Liabilities

The valuation of scheme liabilities was £176.6 billion. This valuation was published in June 2014 a copy of which can be found [here](#)¹. The valuation was based on 691,000 active members, 459,000 deferred members and 618,000 retired members.

For Annual Report and Accounts purposes, the Scheme Actuary updates this estimate under IAS19. The estimated liability in the 2017-18 Annual Report and Accounts (published [here](#)²) was £361.5 billion.

The next valuation is due for publication in 2019.

¹ The full address of the website is: <https://www.teacherspensions.co.uk/news/employers/2014/06/publication-of-the-valuation-report.aspx>

² The full address of the website is: <https://www.gov.uk/government/publications/teachers-pension-scheme-annual-accounts-2017-to-2018>