



Department  
for Education

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

## **Main Estimate 2024 financial year**

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

**July 2024**

# Teachers' Pension Scheme Main Estimate 2024-25

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## Overview

### Objectives

The Teachers' Pension Scheme (TPS, the Scheme) is an unfunded defined benefit occupational pension 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

TPS is not subject to pre-set Departmental Expenditure Limit (DEL) control totals; it sits within a category of spending known as Resource Annually Managed Expenditure (R-AME), which can be revised and reforecast regularly. This is because day-to-day net expenditure and cash payments are largely outside the control of the scheme administrators, 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 principally the amount by which liabilities under the Scheme are estimated to increase during the year, less 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 paid in by employees and employers and transfer values from other pension schemes. Over time, these amounts are intended to balance, but in any individual 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 Amounts sought this year (£ million)		Decrease compared to final budget last year (Supplementary Estimate 2023-24)		Decrease compared to original budget last year (Main Estimate 2023-24)	
		£ million	%	£ million	%
Net Resource-AME	9,257.6	(1,724.6)	(15.7)	(1,721.3)	(15.7)
Net Cash Requirement	1,069.5	(1,024.4)	(48.9)	(1,318.7)	(55.2)

Further details can be seen on page 6.

## Key Drivers of Spending Changes since Last Year

### Resource

The provision sought under R-AME is lower than last year by £1,724.6 million, with significant changes as follows:

The main factor increasing the resource request is:

- Interest on Scheme liabilities increased by £1,594.6 million due to an increase in the interest rate set by HM Treasury (HMT) to 5.10% (2023-24: 4.15%). The increase is offset somewhat by a reduction in the actuarial projection of the Scheme liability, against which interest is charged; the opening liability has decreased to £279.6 billion (2023-24: £303.2 billion).

The main factors decreasing the resource request are:

- Current Service costs are £1,370.0 million lower, primarily due to a change in the underlying rate used to calculate the current service cost, prescribed by the Scheme actuary. Current service cost will decrease in 2024-25 to 22.0% of pensionable pay (2023-24: 27.3%). The change is driven by the shift in real discount rates set by HMT from 1.70% to 2.45%.
- Employee and Employer contributions increasing by £1,950.7 million largely due to the increase to the Employer contribution rate to 28.6% from 1 April 2024 (2023-24: 23.6%). The increase in the rate was confirmed by the Government Actuary's Department (GAD) in the [Actuarial Valuation](#)<sup>1</sup> as at 31 March 2020 which was published in October 2023.

### Net Cash Requirement

The net cash requirement is lower than last year by £1,024.4 million, with significant changes as follows.

The main factors increasing the requirement:

- Pension payments will increase by £894.9 million due to annual Pensions Increase. This is linked to the Consumer Price Index (CPI) measure of inflation at the previous September which was 6.7% in September 2023 (2023-24: 10.1%).
- Changes to internal assumptions regarding the pattern of payments made and received will increase the cash requirement by £28.3 million.

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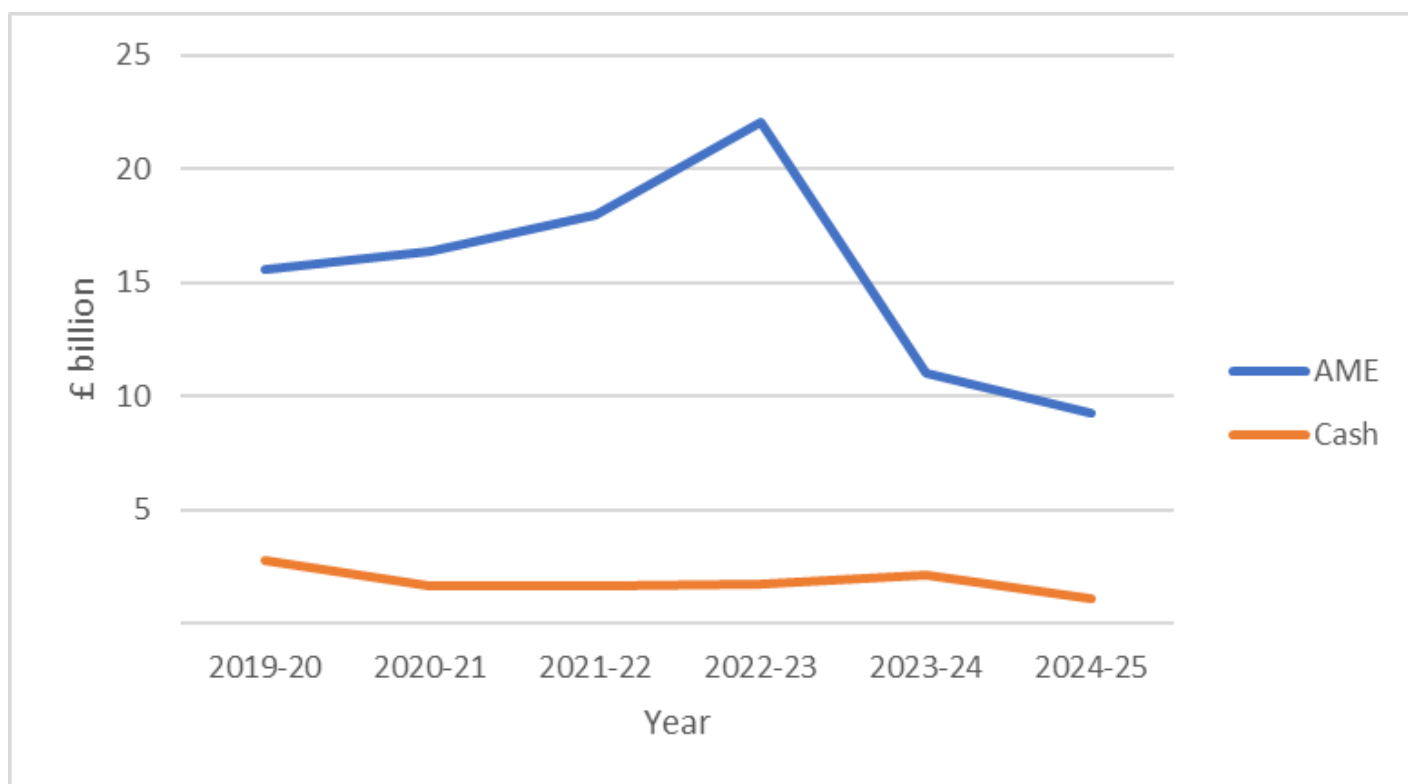
<sup>1</sup> The full address of the website is: [https://www.teacherspensions.co.uk/-/media/documents/member/documents/factors/valuation/tps-ew-2020-valuation-results-report--26\\_10\\_23-\(002\).ashx?rev=aba4c7a4288a480487ee087589a8eda6&hash=732241CC77819285E35B0F764486A6E0](https://www.teacherspensions.co.uk/-/media/documents/member/documents/factors/valuation/tps-ew-2020-valuation-results-report--26_10_23-(002).ashx?rev=aba4c7a4288a480487ee087589a8eda6&hash=732241CC77819285E35B0F764486A6E0)

The main factors decreasing the requirement:

- Contributions received will increase by £1,950.7 million as described above.

## Spending Trends

The charts below show overall spending trends for the last five years and plans presented in the Main Estimate for 2024-25.



## Administration Costs and Efficiency Plans

The cost of administering the scheme is funded via a levy on employers; which is currently 0.08% of pensionable salary. Administration costs are forecast to be £35.0 million with the expected levy on employers being £23.8 million. This is expected to be a short-term shortfall due to the increased costs associated with the transition of the administration contract to a new provider which will take place on 1 October 2025.

## Spending Detail

### Explanation of Changes in Spending

		Resource AME				is change significant? (>£10m & 10%)  see explanation, note
Subheads	Description Detail	Main Estimate 2024-25 £ million	Supp. Estimate 2023-24 £ million	Change £ million %		
Resource AME	Expenditure					
	Current Service costs	6,756.6	8,126.6	(1,370.0)	(16.9%)	1
	Interest on scheme liabilities	14,241.2	12,646.6	1,594.6	12.6%	2
	Enhancements	22.3	21.2	1.1	5.2%	
	Other payments	1.2	1.2	0.0	0.0%	
	Increase in liabilities due to Transfers in	10.5	10.1	0.4	4.0%	
	Increase in premature retirement provision	1.3	16.7	(15.4)	(92.2%)	3
	Interest on premature retirement provision	0.7	(17.1)	17.8	(104.1%)	4
	Administration fee	35.0	34.1	0.9	2.6%	
	Sub total	<b>21,068.8</b>	<b>20,839.4</b>	<b>229.4</b>	<b>1.1%</b>	
Resource AME	Income					
	Employer contributions	(8,783.5)	(7,025.2)	(1,758.3)	25.0%	5
	Employee contributions	(2,992.0)	(2,798.5)	(193.5)	6.9%	
	Transfers in	(10.5)	(10.1)	(0.4)	4.0%	
	Other income	(0.1)	(0.1)	0.0	0.0%	
	Administration levy	(23.8)	(22.3)	(1.5)	6.7%	
	PRC contributions	(1.3)	(1.1)	(0.2)	18.2%	
		<b>(11,811.2)</b>	<b>(9,857.3)</b>	<b>(1,953.9)</b>	<b>19.8%</b>	
<b>AME</b>	<b>Net Resource</b>	<b>9,257.6</b>	<b>10,982.1</b>	<b>(1,724.5)</b>	<b>(15.7%)</b>	
<b>Cash</b>	<b>Net Cash Requirement</b>	<b>1,069.5</b>	<b>2,093.9</b>	<b>(1,024.4)</b>	<b>(48.9%)</b>	6

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

1. Current Service Costs: the current service cost rate set by the Government Actuary's Department is decreasing to 22.0% (2023-24: 27.3%).
2. Interest on Scheme Liabilities: the interest rate set by HMT has increased to 5.10% (2023-24: 4.15%). Interest is charged against the actuarial projection of the scheme liability which has reduced to £279.6 billion (2023-24: £303.2 billion). The net result of these two movements is an increase in the interest charged of £1,594.6 million.
3. Increase in Premature Retirement Provision: The Premature Retirement Compensation (PRC) element of the Scheme is a provision of itself. As such, the general provisioning adjustments such as the changing discount rates and unwinding of the discounts lead to postings being made throughout the year. At year-end the closing balance of the provision is calculated and any remaining adjustments to the provision are posted here. For 2023-24 this led to a £16.7m charge but this cannot be reliably estimated for the Main Estimate at this stage as the changes to the discount rates occur in the winter.
4. Interest on Premature Retirement Provision: The movement 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. The rate is generally confirmed in the winter and is unpredictable therefore the Supplementary Estimate for 2023-24 includes the £17.1 million swing whereas the Main Estimate for 2024-25 does not.
5. Employer Contributions: the employer contribution rate is due to rise to 28.6% of the paybill, up from 23.6% of the paybill in 2023-24.
6. Net Cash Requirement: the net cash requirement has decreased by £1,024.4 million as a result of the following:
  - Employer and employee contributions increasing by £1,950.7 million largely as a result of the increase to the employer contribution rate mentioned above.
  - This is net off to some degree by pension payments increasing in line with the Consumer Price Index (CPI) measure of inflation which was 6.7% (2023-24: 10.1%). This has led to an increase in the net cash requirement of £894.9 million.
  - changes to internal assumptions regarding the pattern of payments and receipts have increased the net cash requirement by £28.3 million.

## Remote Contingent Liability

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 2023 was estimated at £44 million per annum. This guarantee does not apply to members who make

payments to other institutions offering Free Standing AVCs. This was disclosed as a Remote Contingent Liability in the 2022-23 Annual Report and Accounts.

## Estimated Scheme Liabilities

The [valuation of scheme liabilities](#) published in October 2023 was £262.0 billion.<sup>2</sup> 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 [2022-23 Annual Report and Accounts](#) was £303.2 billion.<sup>3</sup>

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2 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)

3 The full address of the website is: [https://assets.publishing.service.gov.uk/media/6508172522a783000d43e734/2022-2023\\_TPS\\_Annual\\_Report\\_and\\_Accounts.pdf](https://assets.publishing.service.gov.uk/media/6508172522a783000d43e734/2022-2023_TPS_Annual_Report_and_Accounts.pdf)