Department for Education

Teachers’ Pension Scheme member contribution tiers report, under Section 22(2)(b) of the Public Services Pensions Act 2013: The Teachers’ Pensions Schemes (Amendment) Regulations 2025

March 2025

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Introduction

This report is laid before Parliament in accordance with section 22(2)(b) of the Public Service Pensions Act 2013 (the ‘2013 Act’). It relates to a proposal to make regulations under the 2013 Act.

The regulations amend the Teachers’ Pension Scheme Regulations 2014 (the ‘2014 regulations’) to implement an adjustment to the member contribution tiers structure. It is proposed that the regulations will take effect on 1 April 2025. As the regulations include an amendment to member contributions rates, a protected element of in accordance with section 22(5) of the 2013 Act, the Department for Education (the Department) has consulted persons or representatives of those likely to be affected by the change with a view to reaching agreement with them and now lays this report before Parliament.

The purpose of this report is to set out why the Department proposes to make this amendment, having regard to the desirability of not making a change to the protected elements of the scheme under section one of the 2013 Act within the protected period.

Background

In 2010, the Independent Public Service Pensions Commission (IPSPC), chaired by Lord Hutton, concluded in its interim report that reform of public service pension schemes was necessary and that there was a case for a fairer distribution of the cost of public service pensions between employees and other taxpayers. The 2010 UK government Spending Review announced that public service workers would be asked to contribute more towards their pensions as part of wider reforms to put public service pensions on a sustainable footing. The required employee contribution rate in the Teachers' Pension Scheme (TPS) rose from 6.4% of pensionable salary to the current rate of 9.6%.

The public service pension reforms legislated for under the 2013 Act are designed to last for at least 25 years. The provisions in that legislation are intended to ensure a high bar is set for those contemplating making changes to scheme features and therefore there are enhanced procedural requirements for consultation, and a report to Parliament is required when making changes to protected elements for a period of 25 years. Member contribution rates are one of the protected elements.

Section 22 of the 2013 Act sets out the procedure to be followed if the responsible authority (the Secretary of State for Education in relation to the TPS) proposes to make changes that impact on elements of the scheme which are subject to enhanced protection. These elements are protected from modification until 31 March 2040 (the protected period), unless the prescribed procedure set out in section 22 is followed. Where a change is proposed to a protected element during the protected period, the responsible authority must:

- consult those who appear likely to be affected, or representatives of those persons, with a view to reaching agreement
- lay a report before Parliament.

Policy objective

The reforms referred to above led to the making of the 2014 regulations. Whilst the member contribution yield must be 9.6% of pensionable salary, there were a range of approaches that could have been taken to ensure that rate is collected from across the entire scheme membership. The simplest method would have been to require each member to contribute a flat rate of 9.6%. However, the Department, in discussion with representatives, chose to implement a sliding scale of rates for TPS members according to their pensionable earnings, with the aggregate amount collected across members adding up to the required yield. This is known as 'tiered contributions' and is the method adopted across most public service pension schemes in the UK.

The tiering of member contributions has allowed the TPS to reduce potential financial barriers, particularly amongst lower earners, and encourage all staff to participate in the pension scheme which is intended as a mutual scheme for all members. Tiering has helped to minimise non-participation in the scheme and ensure that it remains sustainable and affordable to all members.

When the public service pension reforms introduced the new career average revalued earnings scheme in 2014, where pension is built up on a career average basis, an argument could have been made that everyone should pay the same rate - that is the 9.6% yield. However, in the 2011 final report, the IPSPC recommended a tiered contribution approach for the new career average schemes, to reflect the differing characteristics of higher and lower earners. This recognises the mutual intention of the schemes and the continuing desirability to facilitate participation across the whole workforce, having regard to potential affordability concerns for lower earners. The considerations outlined in the IPSPC report apply equally to the TPS.

Consequently, as part of the tiered contributions approach, pensionable pay amounts are grouped into tiers and a contribution rate is set for each tier. The member pays the contribution rate on their actual pensionable earnings. From 2015-16 there were six tiers ranging from 7.4% for those earning below £25,999 to 11.7% for those earning above £75,000. While this structure has been in place and the contribution rates have remained the same, the pay bands have increased annually in line with the rate of the Consumer Prices Index (CPI). The effect on the structure in 2025-2026 is detailed below:

Annual Salary Bands (1 April 2025)	Member Contribution Tier
< £34,873	1
£34,873.00 - £46,943.99	2
£46,944.00 - £55,660.99	3
£55,661.00 - £73,768.99	4

£73,769.00 - £100,590.99	5
> £100,591	6

Proposed change to the member contribution structure

The 2020 Scheme Valuation carried out by the Government Actuary's Department (GAD) was concluded in 2023. As part of that process, an assessment was made of the existing member contribution structure and whether it was likely to meet the 9.6% contribution yield over the valuation implementation period which, due to the complexity of the Transitional Protection remedy, was delayed by one year to cover the period from 1 April 2024 to 31 March 2027.

The estimated yield from modelling of the current member contribution structure was 9.45%, primarily because of the member contribution tier thresholds increasing at a higher rate (based on CPI) than average salary growth, which has affected the expected distribution of the membership in the contribution tiers. Action is therefore required to adjust the structure to ensure that the required yield of an average of 9.6% will be achieved in the current valuation period.

The Department has worked closely with GAD and the Teachers' Pension Scheme Advisory Board (SAB) on the potential changes that could be made. The SAB is a statutory board of member and employer representative which provides advice to the Secretary of State on the desirability of potential changes to TPS rules.

Several options were modelled in line with the policy principles determined in consultation with the SAB, which included protection of the lowest paid, fairness for all members, ease of member understanding and minimising the administrative burden on scheme employers.

Following extensive consideration of the options that were discussed and modelled, including those put forward by the SAB, the unanimous recommendation which was accepted by the Department was to retain the current six-tier structure with the forecast shortfall met by an increase of 0.3 percentage points (p.p.) for tiers two-six. The contribution rate for the lowest tier, which from 1 April 2025 covers those earning up to £34,873, would not be increased.

The SAB made its recommendation with the particular aim of seeking to ensure teachers continue to participate in the scheme, given it is such a valuable part of the overall reward package, and recognising the proposed changes best balance the need to ensure that the scheme remains sustainable whilst making sure it is affordable to members at all stages of the profession.

The table below details how the current structure will be updated from 1 April 2025. The table also includes the annual uplift of contribution tiers in line with the Pension Increase factor.

Annual Salary Bands (1 April 2025)	Current Member Contribution Rate	Member Rate from 1 April 2025
< £34,873	7.4%	7.4%
£34,873.00 - £46,943.99	8.6%	8.9%
£46,944.00 - £55,660.99	9.6%	9.9%
£55,661.00 - £73,768.99	10.2%	10.5%
£73,769.00 - £100,590.99	11.3%	11.6%
> £100,591	11.7%	12%

To apply the proposed changes, scheme rules have been amended via a change to scheme regulations. Regulation 4 of the Teachers' Pensions Schemes (Amendment) Regulations 2025 amend regulation 185 of The Teachers' Pension Scheme Regulations 2014, to adjust some employee contribution rates from 1 April 2025. The amendment does not increase the required member yield above 9.6% overall, announced in 2012.

Consultation

In accordance with section 22(2)(a) of the 2013 Act, the Secretary of State for Education consulted persons or representatives of such persons who appear likely to be affected by the proposed regulations with a view to reaching agreement with them. A list of these consultees is kept up to date on GOV.UK at https://assets.publishing.service.gov.uk/media/5e21c886e5274a6c41f921c0/TPS_Consultee_List_2020.pdf.

The SAB was presented with several options to adjust the structure and were also invited to submit their own proposals. After detailed exploration and analysis, there was unanimous agreement amongst the SAB, which includes the major teacher unions, that the table outlined above was the best option for both the scheme and its members.

A public consultation was launched on 14 November 2024 and closed on 23 January 2025. In total, 187 responses were received from individuals, trade unions, employers and other organisations. The consultation set out the proposed amendment to the member contribution rates.

The National Association of Schoolmasters Union of Women Teachers (NASUWT), the National Education Union (NEU), Association of School and College Leaders (ASCL) and the Independent Schools Council (ISC) / Independent School Bursars' Association (ISBA) all expressed their support for this approach to adjusting the member contribution tiers, although some noted they do not agree that the member rate should be 9.6%.

Some respondents, including Community, NEU Brent group, NEU post-16 group and University Arts London expressed concerns about the adjustment of the member contribution rates, citing the impact it may have on members' finances.

Responses from individuals have been summarised below:

- Concern about the impact of the change on members' finances following the adjustment to the contribution tiers was raised by many respondents.
- Some respondents felt it was unfair that higher earners pay a higher percentage in monthly contributions.
- Some respondents felt this change would lead to higher rates of members opting out, which they believe will cause long term damage to the viability of the scheme.

The Department has addressed all comments in its consultation response document which can be found here - www.gov.uk/government/consultations/teachers-pension-scheme-regulations-2024-proposed-amendments.

Impact

The proposed amendment means that approximately 390,000 will see the cost of accruing pension scheme benefits change on 1 April 2025. Members with pensionable earnings of less than £34,873 in the TPS, approximately 34% of the membership, will see no change to their contribution rate. The remaining membership will pay an additional 0.3% p.p. on their contributions.[1]

If the regulation is not amended, then the required member contribution yield will not be met in the current valuation period. The shortfall would need to be met by employers, and ultimately the taxpayer.

There is no, or no significant, impact on business, charities or the voluntary sector.

[1] As at 31st January 2024.

Conclusion

Parliament is invited to note the changes to the member contribution tiers and why the Department proposes to make this amendment, having regard to the desirability of not making a change to the protected elements of the TPS within the protected period. The Department further asks Parliament to note that the change being made is an adjustment to ensure that the required yield of 9.6% continues to be met, and the changes do not amount to a requirement for members to pay more overall than was agreed as part of those reforms in 2012.

The Teachers’ Pension Scheme (Amendment) Regulations 2025 will be made and laid in Parliament under the negative resolution procedure.

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