# *Teachers' Pension Scheme – April 2021:*
# *Further cost increases?*

*TPS employer contributions* *2015: 16.48%* ➡ *2019: 23.68%* ➡ *2024: 30%?*

## *Our viewpoint*

The past year has tested independent schools' business models, financial and operational resilience, and risk management approaches. As schools look to the future, risks that can actually be managed are rapidly moving up agendas. The Teachers' Pension Scheme (TPS) represents one such risk.

The main focus of this briefing note is to look at what contributions to the TPS could be from 2024 onwards, which is relevant now as the process for working out what those costs will be is underway. In short, we think it is reasonably foreseeable that costs will increase.

However, considering what may or may not transpire in three years' time shouldn't distract from focussing on the things that are actually happening now.

For schools considering their options and/or looking to enter consultation on leaving the TPS or moving to a more flexible reward approach for their teachers, an expectation of higher future contributions is an interesting and relevant point, but it is **unlikely to be sufficient in isolation to underpin a business case and justify consulting with staff about exiting the TPS**. Instead, in our experience any consultation should be built around a robust business case considering the current and future cost pressures, the impact on teachers, and the risks the school is exposed to as a whole.

## *What will the valuation outcome be?*

Our view is that it is likely that we see costs increasing from 2024. An employer rate of 30% of salaries is plausible, but it's around the top end of what we might expect and there's a huge range of potential outcomes. Contrary to what some commentators are saying, the impact of resolving the "McCloud" case is not expected to have a material impact on school contributions on a net basis because of an important offsetting factor. The following page explains the key potential cost drivers and the impact they could have.

## What's the valuation and why is it important?

The valuation (or actuarial valuation, to be precise) is 4-yearly assessment of the financial health of the TPS. These valuations drive the contributions that schools have to pay going forwards. There are two key parts to this:

1. **Cost of benefits being built-up:** What's the cost of the benefits being built-up going forwards, and how much should TPS ask employers to pay for them?; and
2. **Deficit catch-up:** Did schools pay enough in the past, or with the benefit of hindsight should they have paid more, meaning schools now need to play deficit catch-up?

As you might imagine, answering the above questions for a pension scheme with 2 million members isn't a quick job. The last actuarial valuation of the TPS was as at 31 March 2016 and resulted in increased contributions from September 2019 (having been announced in September 2018). The current valuation is being carried out as at 31 March 2020. If this valuation had followed a similar pattern we might have expected new contributions to be effective from September 2023. However, the Government has confirmed this will be delayed (with new contributions coming into effect from 2024) due to the "McCloud" case. The current expectation will be for any contribution increases to apply from April 2024 (potentially with further adjustments to reflect the delay in implementation). If following a similar pattern to the 2016 valuation we might expect an announcement a year ahead of any increase.

**LCP's specialist team can help you with all aspects of the TPS, from helping you decide what to do through to consultation support, if that is what your school decides is right. If you'd like to discuss how we can help you, please get in touch.**


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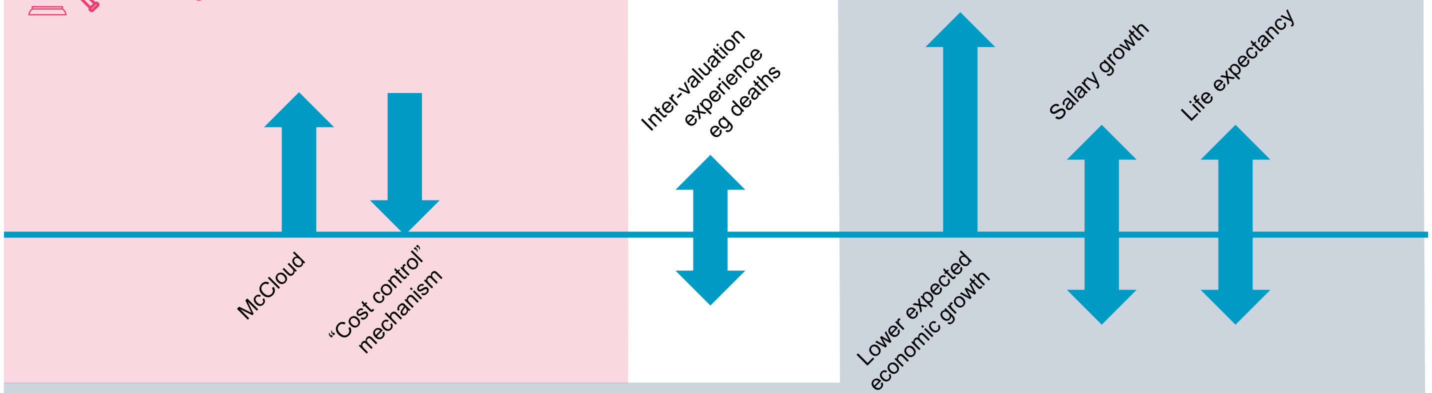
# *Potential cost drivers*

At the time of writing, following a period of uncertainty it's looking like we might finally have some clarity on what benefits the TPS is actually providing. The confusion has been largely because of the outcome of the "McCloud" case which asserted that the changes made to public service pensions, including the TPS, in 2015 were age discriminatory. We expect correcting this issue for past benefits to increase employer contributions by perhaps 2-3% or more of salaries in isolation. However, schools have actually already been paying for a different set of benefit improvements that were potentially due (under the "cost control" mechanism). The Government has now indicated that these "cost control" improvements are not going to be implemented, so the overpayments can effectively be used to meet McCloud costs. In short – changes to benefits due to the McCloud case are likely to be broadly cost neutral against the current rate. For more information on this please see our blog: Teachers' Pension Scheme – every McCloud has a silver lining.

## *Benefits*




*30%?*

Plausible, but it's around the top end of what we might expect and there's a huge range of potential outcomes

*23.68%*

The current rate, effective from September 2019.

## *Assumptions*

One of the key drivers for the last valuation was a reduction in the assumed rate of long-term future UK economic growth – it was a large part of the increase in TPS contributions from 2019. It is difficult to imagine the Office for Budget Responsibility and Treasury taking a more optimistic view than they did 4 years ago, and further reductions in the assumption for future growth seem very plausible, pushing TPS contributions up. A number of other factors (eg future salary growth or assumed future life expectancy) could go either way. Logic might expect the impact of the pandemic to be a reduction in life expectancies and hence costs. In practice, it might be some time before the long-term impact is known and/or quantifiable. Given the inherent uncertainty it may be that making a material allowance for reduced life expectancy as part of this valuation would be premature.