Pensions Remedy Project Team
H M Treasury
2/Red
1 Horse Guards Road
London
SW1A 2HQ

11 October 2020

Dear Chief Secretary to the Treasury,

**Public service pensions schemes consultation: changes to the transitional arrangements to the 2015 schemes.**

**Response to the consultation on behalf of the employer representatives:**

- **Local Government Association**
- **Association of Colleges**
- **Universities and Colleges Employers Association**
- **Sixth Form Colleges Association**
- **Independent Schools Council**

While each representative body has submitted its own response setting out the comments from their constituents, this joint response highlights the broad areas where there is agreement across the employer representative bodies that speak on behalf of their members in the Teachers' Pension Scheme.

1. On the fundamental issue of choice, if member choice is found to be the legally acceptable method of implementing the Court's requirement to remove age discrimination, then we are broadly in favour of deferred choice. While immediate choice has benefits in relation to administration and cost, the fact that it would require all members to make choices in relatively short order, based on a whole suite of assumptions, would make it harder for them to decide, more likely that they would need financial advice which will be difficult to find and more likely that the decision could be challenged in the future. Immediate choice would also require significant resource to be expended on administration and IT systems changes, and data collection to ensure they were all ready in good time which would be a herculean task for administrators and employers.

2. However the remedy is implemented there will be significant costs in relation to the administration, IT and communications. Employers fund the administration of the TPS through a levy of 0.08%. While this is a small addition to the overall cost, in a scheme the size of TPS this raises many millions of pounds per year. As the McCloud costs have been assessed as a member cost and therefore not something that should be funded by the employers, we would ask HMT to confirm that the administration cost of implementing the remedy is also not to be paid by the employers.

3. Following the 2016 valuation the employer contribution rate increased from 16.4% to 23.6% of pensionable pay. This 7.2 percentage point increase was not expected and not budgeted for by TPS employers. The impact on the public sector employers that

participate in the TPS was mitigated through a temporary government subsidy, but for those non-public sector employers in the scheme (mainly Higher Education Institutions and independent schools), no additional funding was made available and the costs had to met within current budgets thus reducing the funds available to support students and schoolchildren. Neither of these situations is sustainable. Higher TPS employer contributions cannot be subsidised by the Treasury in perpetuity and employers cannot continue to fund ever increasing contribution levels from existing budgets. There needs to be a fundamental review of the sustainability of the scheme and the value for money it provides for employers and members.

4. There are already significant concerns about the potential result of the 2023 valuation and the possibility of a further large increase in employer contributions due to the impact of the McCloud remedy, future salary increases and the potential for another review of the SCAPE discount rate. Some estimates have suggested that an increase in employer contributions in the region of 4 percentage points is possible. We understand that the McCloud remedy has been deemed a member cost by HMT, but the long term impact on scheme funding and employer costs is unclear, especially if members are making deferred choices about which benefits they wish to draw over future decades. There is also the potential for additional employer costs to fund backdated contributions based on the choice the member eventually makes. This needs to be taken into account when considering scheme sustainability as employer contributions at the current level or above are simply unaffordable.

5. We are aware that a GAD review of both the cost control mechanism and the assumptions within that mechanism is underway and are reassured that this review will be implemented in time for the result of the 2020 valuations. We are encouraged that this review will assess whether the cost control mechanism meets the policy objectives as the Hutton report originally suggested that both past and future service costs be considered when capping employer costs. This needs careful consideration due to the proposal that all members affected by the remedy should be transferred back to the legacy scheme until they make their deferred choice at retirement. This transfer would remove a large portion of the cost of their benefits from the current cost control mechanism.

   We also feel that such is the range of employers that participate in the public sector schemes, with many not funded directly by central government, that it cannot be assumed that pension costs borne by the government (or the taxpayer) are the same as employer costs. In other words, if HMT agrees to bear a scheme cost, this is not fulfilled by the relevant cost being considered an employer cost for the purpose of calculating either the employer contribution rate or the cost control mechanism outcome.

   We would strongly recommend that changes to actuarial assumptions are made on the basis of long term forecasts and not adjusted over short periods using short term variations in economic fundamentals. This particularly applies to the SCAPE discount rate.

   All the employer bodies are willing to engage with TPS, DfE, HMT and GAD on this review both through the TPS SAB and independently. We were pleased to be informed, at a recent meeting with HMT officials, that the results of the review will be subject to public consultation and we fully intend to respond on behalf of our employers.

We look forward to engaging with HMT on these important issues in the coming months.

Yours sincerely

Councillor Roger Phillips,

Lead member for Pensions
Local Government Association

Julian Gravatt,

Deputy Chief Executive (Policy, Curriculum and Funding)
Association of Colleges

Emelda Nicholroy,

Head of Pensions Policy
Universities and Colleges Employers Association

Julie Robinson,

Chief Executive
Independent Schools Council

Graham Baird,

Director of HR Services
Sixth Form Colleges Association