# Mock up example of Supplementary Estimates memorandum (2018-19) for a **Pension Fund** (revised January 2020)

The mock up example below relates to **Pension Funds' Supplementary Estimates** memoranda and should be looked at in conjunction with the relevant guidance for those funds. A separate mock up is available for pension funds' Main Estimates memoranda, and separate guidance and mock ups are available for other types of department. While the examples given are for the financial year 2019-20 the actual numbers, explanations and context are either fictitious or based on past Estimates - they DO NOT reflect actual requests for funding or outturn in any particular year.



## 1 Overview

### 1.1 Objectives

The Teacher's pension scheme is an unfunded defined benefit scheme, in which payments to pensioners in the scheme are funded by contributions from current employees and employers in England and Wales, with the shortfall being financed by the Exchequer.

### 1.2 Spending controls

The Teachers' pension scheme 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 teacher's pension scheme Estimate is essentially the amount by which liabilities under the pension 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. A negative value means that more is forecast to be received than paid in year.

### 1.3 Comparison of net spending totals sought

The table and graphic below show how the totals sought for the pension scheme compares with last year:

| **Net Spending Total**<br><br>**Amounts sought this year**<br><br>**(Supplementary Estimate 2019-20)** | | **Difference (+/-) compared to original budget this year**<br><br>**(Main Estimate 2019-20)** | | **Difference (+/-) compared to final outturn last year**<br><br>**(Outturn 2018-19)** | |
|---|---|---|---|---|---|
| | | **£ m** | **%** | **£m** | **£ m** |
| Resource AME | £15,111.9m | -£738.8m | -2.8% | -£738.8m | -2.8% |

## 1.4 Key drivers of spending changes since last year

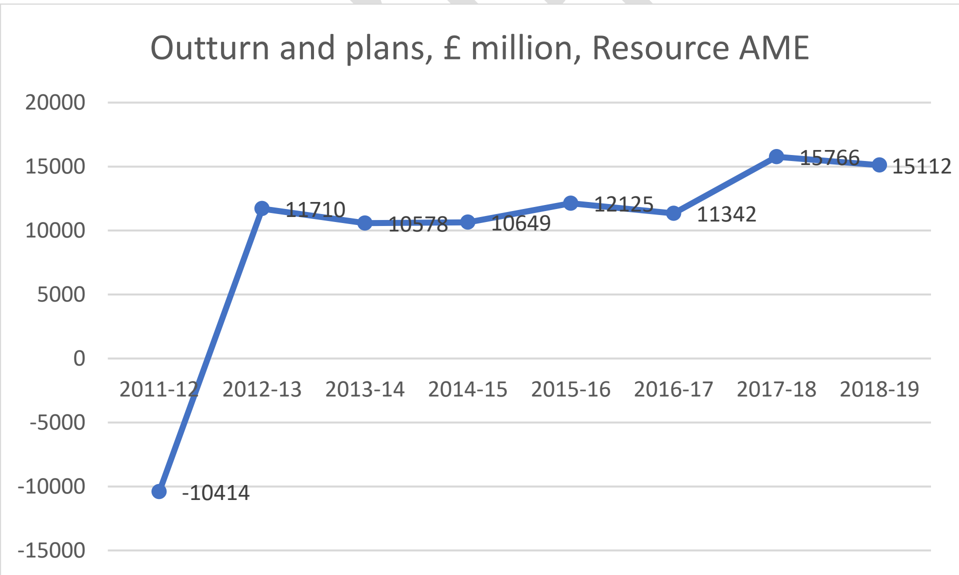
The provision sought under Resource AME is lower than last year, largely as a result of changes to the Treasury- set discount rate for long term liabilities from 0.24% to 0.1%; and of the interest rate on scheme liabilities, from 2.8% to 2.55%. This reduces the value of additional liabilities expected this year, compared to amount needed to cover new liabilities last year.

[It is also affected by X and Y.]



## 1.5 Spending trends

The charts below show overall spending trends for the last five years, plans presented in Estimates for 2018-19. As AME is re-forecast on an annual basis, there are no future plans beyond the current Estimate.




Note:

1 The decision to uprate public service pensions using the Consumer Price Index rather than the Retail Price Index resulted in a one-off credit of £22.2 billion to the past service costs in 2010-11 financial year

## 1.6 Administration costs and efficiency plans

The costs of the administration of the scheme are borne by X though subhead Y and are forecast to amount to £XX million.

# 2 Spending detail

## 2.1 Explanations of changes in spending

| Subheads | Description | detail | Resource AME | | | | |
|---|---|---|---|---|---|---|---|
| | | | *This year (2019-20 Supplementary Estimates budget sought)* | *This year (2019-20 Main Estimates budget approved)* | change from last year | | is change significant? |
| | | | £ million | | | % | see explanation, note/para number |
| A | expenditure | | | | | | |
| | | *current service costs* | 12,181.9 | 12,071.4 | 110.5 | 0.9% | |
| | | *interest on scheme liabilities* | 9,344.4 | 10,162.4 | -818.0 | -8.0% | 1 |
| | | *other payments* | 4.8 | 4.3 | 0.5 | 11.6% | |
| | | *increase in liabilities due to transfers in* | 17.1 | 24.0 | -6.9 | -28.8% | |
| | | *increase in premature retirement provision* | 2.6 | 2.4 | 0.2 | 8.3% | |
| | | *interest on premature retirement provision* | -3.5 | -1.8 | -1.7 | 94.4% | |
| | | *administration fee* | 18.5 | 18.5 | 0.0 | 0.0% | |
| | sub total | | 21,565.8 | 22,281.2 | **-715.4** | **-3.2%** | |
| | | | | | | | |
| A | income | *employer contributions* | -4,042.7 | -4,022.1 | -20.6 | 0.5% | |
| | | *employee contributions* | -2,371.0 | -2,359.4 | -11.6 | 0.5% | |
| | | *transfers in* | -17.1 | -24.0 | 6.9 | -28.8% | |
| | | *other income* | -0.7 | -0.6 | -0.1 | 16.7% | |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | *administration levy* | -19.7 | -19.6 | -0.1 | 0.5% | |
| | | *PRC contributions* | -2.6 | -4.7 | 2.1 | -44.7% | |
| | | | -6,453.8 | -6,430.4 | **-23.4** | **0.4%** | |
| A | net | | 15,112.0 | 15,850.8 | **-738.8** | **-2.8%** | |

Differences [see guidance] which are significant are explained below.

1. A reduction in the (Treasury notified) interest rate from 2.8 to 2.55% in December 2017 had the impact of reducing the interest on scheme liabilities compared to last year.

## 2.2 Changes to contingent liabilities

The contingent liability for X is forecast to rise by W as a result of event Y.

## 2.3 Estimated scheme liabilities

The latest valuation of scheme liabilities was £x billion (date where published/link)

At that time there were y million scheme members.

The next valuation will take place [when].

# 3. Accounting Officer Approval

This memorandum has been prepared according to the requirements and guidance set out by HM Treasury and the House of Commons Scrutiny Unit, available on the Scrutiny Unit website.

The information in this Estimates Memorandum has been approved by myself as Departmental Accounting Officer.

Jane Smith

Departmental Accounting Officer

Teacher's Pension Fund

1 March 2020