MillionPlus

The Association for
Modern Universities

CONSULTATION RESPONSE

Funding increases to teachers' pensions employer contributions

IMPACT ON UNIVERSITIES AND OTHER ORGANISATIONS PROVIDING HIGHER EDUCATION OBLIGED TO OFFER TPS

The University and Colleges Employers Association (UCEA) produced an extensive briefing on the challenges facing universities on account of the pensions increases. That briefing is available on the UCEA website.

UCEA notes that the English and Welsh HE sector is facing increases of 44% on their employer contributions, the bulk of which will fall on modern universities. Modern universities are those that have taken university title after 1992 and are obliged to offer academic employees membership of the Teachers Pensions Scheme. In total, there are 70 modern universities that are affected by these changes. UCEA estimates the economic impact of these increased costs to be approximately £130m – equivalent to the tuition fees of 14,000 undergraduate students.

These modern universities are also obliged to offer the Local Government Pension Scheme to professional and support staff, and many of them are particularly involved in offering medical and allied health education. As such they face a pensions challenge on three fronts.

The Department for Education has offered welcome support for schools and colleges for a transition year, but such an offer has not been extended to universities. These increases will patently have an impact on modern universities' long-term cost base and therefore on what can be delivered for students. It is proposed that this would be a recurring increase in staff costs for at least a four-year period (until the next valuation). There is no effective cost-sharing proposed between employers and employees as many external commentators might have reasonably anticipated.

Modern universities are committed to ensuring that employees benefit from healthy, high quality pensions. However, with less than 12 months warning, no phasing-in period and no financial support in the offing, universities will face extremely tough financial decisions at a time when there are other significant uncertainties around funding and student demand. The UCEA briefing notes how some universities have considered adapting to these increased costs:

- *"…a necessary reduction in the region of 5% of teaching workforce alongside reductions in spend on facilities and resources available for students to support their learning."*
- *"…, impact on staff numbers, student services and future plans for investment in the student experience will be inevitable and significant."*
- *"The university estimates that the TPS increase will be £1.3m pa, representing an overall increase on the pay bill of circa 2%… the university has no option but to implement a sizeable savings programme, and expects that we may need to shed around 120 staff…."*

The pension increase for TPS equates to approximately 7 percentage points on top of existing contributions. A percentage increase in costs without a commensurate percentage increase in income will lead to a decrease in expenditure. Universities will clearly need to consider if this involves staffing reductions, which will inevitably have an impact on student experience. The absence of any mitigation funding or transitional relief means that universities are faced with making these changes over a short period of time, which detracts from their ability to think and plan about the long-term. These increased costs may also damage plans for investment in learning, teaching or other developments to benefit students.

Some universities have taken decisions on other pension provision to address rising costs, while also ensuring that staff retain generous benefits. These have included moving support staff away from a defined benefit scheme to a defined contribution scheme. This increase is likely to absorb any of those savings and could lead to a divide between staff on different pension schemes within the same workforce. The risk is that these challenges prompt universities to consider whether the TPS is value for money and start to investigate ways to reduce their exposure to it.

In addition to the pressures and implications of the cost changes indicated above, there are other factors that compound this issue:

- A lack of legal control over the costs incurred. Pension requirements are imposed on post-1992 universities, and unlike the other main academic pension scheme (Universities Superannuation Scheme), they do not have the same rights of governance or management in making decisions about how the scheme is run. These means they face the operational and financial consequences, like other educational providers, of decisions taken by government.

- The challenges of being considered as outside the public sector (as a consequence of the Higher Education and Research Act 2017) but still bound, controlled and restricted by many of the rules and regulations of the public sector.

- The difficulties of making changes quickly, for example to courses, in order to address these financial pressures, while abiding by the legal obligations and requirements of regulators – e.g. the Competition and Markets Authority and the Office for Students. "Teach-out" requirements mean that course closures take a number of years to see through, meaning cost savings are impossible in the short-term.

An additional challenge since 2017 and the introduction of new registration rules for HE providers to create more competition is that there is now no longer a level playing field in pensions in Higher Education. New commercial providers can offer staff defined contribution schemes with low employer contributions at 6% or less. In contrast, post-92 universities are bound by statute, similar to FE colleges (legislation applies both to FE and post-92 universities), which suggests they should also receive some mitigation funding. The government should consider transition arrangements and provide adequate funding support in terms of changes to the affected schemes, or suspend the changes pending a review of public service pension scheme valuations.