FINANCIAL STABILITY IN HIGHER EDUCATION: ENABLING A SUSTAINABLE APPROACH TO PENSION PROVISION

EXECUTIVE SUMMARY

High employer contribution rates paid by post-92 higher education institutions (HEIs) to the Teachers' Pension Scheme (TPS) are unsustainable. TPS contribution costs are a significant contributor to the financial distress in the post-92 sector. The HE sector is also impacted by the reduced value, in real terms, of UK tuition fees; reduced income from a decline in overseas students and increased employer national insurance (NI) contributions. There is also anxiety about the impact of the upcoming international student levy.

The UK Government's Post-16 Education and Skills White Paper commits "… to better understand concerns within the post-1992 higher education sector about pension provision, noting that defined benefit pensions are an important and valued part of staff remuneration."[1] UCEA welcomes this and sets out the case for a sustainable approach to pensions in order to allow HEIs to own their finances, while offering staff competitive pensions.

The current regulatory position:

- Creates a competitive disadvantage for post-92 HEIs
- Mandates use of public service schemes that offer poor value for money for HEIs
- Increases the likelihood of failure of an HEI
- Treats the HE sector unfairly - HE is the only sector suffering the full consequences of TPS
- Diverts resources away from education and research, and
- Is leading to fragmentation of the HE sector.

HEIs should be allowed to fairly compete for staff and offer pensions that deliver good value for money, for employers and their staff as well as for students and taxpayers. HEIs should be given full flexibility to choose the pension arrangements they offer to their staff, to better control their finances.

UCEA recognises that there may be concerns about changes such flexibility would allow. However, within an increasingly diverse workforce, HE staff have different financial circumstances and aspirations when it comes to retirement saving. It is important that HEIs are able to respond by offering affordable pensions and options, for example, in relation to how much they pay into their pension scheme.

While public service pensions are a significant contributing factor to the sector's financial pressures, HEIs are fully aware of the importance of retirement saving and the need to offer a competitive total reward package to attract and retain high quality academic and professional service staff.

[1] Post-16 Education and Skills

HEIs already offering alternative pension arrangements provide well above statutory minimum contribution rates and private sector averages (incl. FTSE100). These options have been well received by HE staff and have helped to reduce the number of staff opting-out of pensions on the grounds of affordability.

HEIs' aspiration for fair and sustainable pension provision is in keeping with the Government's wider position for the HE sector to be financially independent and responsible for driving greater efficiencies.

The direction of travel is clear: a move away from public service schemes. The question is to what extent regulation will support this.

Making changes to public service pension scheme regulations to enable HEIs to choose their own pension arrangements for their staff will improve financial stability, reducing the likelihood of further course closures and redundancies. It will help create a stronger HE sector for the future.

The current position is unsustainable. Analysis of HEIs in the same geographic area shows that post-92 institutions saw the monetary cost of their TPS contributions increase by c.15% in the year to 31 July 2025, while their local pre-92 HEI saw a reduction in the monetary cost of their USS contributions of c.12%[2].

If HEIs do not make changes to improve long term financial stability there is an increased likelihood of an institution being forced to close. For the financial year 2023-24, seven of the 21 post-92 institutions in deficit would have been in surplus if TPS contribution rates had remained at 2019 levels or if Government funding had been made available to offset this increase as was the case for FE colleges[3].

Closure of an HEI results not just in loss of HE jobs, including further pension accrual, but also in disruption to students and significant economic loss in and around the areas where HEIs are located. Nobody wants this outcome, but it looks increasingly likely.

UCEA argues that flexibility via regulatory change is both aligned to the Government's approach to HE and provides HE employers and their employees with an alternative to setting up a subsidiary. HEIs can keep staff employed directly by the university and offer all staff the same terms and conditions. HEIs can focus on delivering high quality teaching and research.

Providing flexibility to HEIs to choose their own pension arrangements is the right the thing to do. It will also enable HEIs to achieve necessary efficiency savings in the simplest manner.

Whilst this paper has been written to specifically address the challenges faced by HEIs in England and Wales, the principles and challenges equally apply to Scottish HEIs.

[2] UCEA have reviewed a small sample of HEI financial statements for the year to 2024-25.
[3] UCEA analysis based on 2023-24 HESA data

BACKGROUND TO HE SECTOR PENSION PROVISION

There are two main pension schemes for academics working in HE: academics at pre-92s generally participate in the Universities Superannuation Scheme (USS), a scheme chosen by their employer; academics at post-92s participate in the Teachers' Pension Scheme (TPS).

Pre-92 HEIs institutions do not generally have any statutory obligations to offer a particular pension scheme, either to their academic or professional services staff[4]. Whilst the majority of pre-92s offer USS for their academic staff they are, in general, free to choose any pension scheme for their employees[5].

Conversely, HEIs created under the 1992 Further and Higher Education Act ("post-92 institutions"), must participate in the TPS and the Local Government Pension Scheme (LGPS). Academic staff at post-92 HEIs participate in the TPS[6], with professional services staff participating in the LGPS[7]. There are other HE providers that were previously under local government control, for example Conservatoires, that are also required to offer the TPS and LGPS.

HE FINANCIAL SUSTAINABILITY IS AT RISK

The current regulatory position:

1. Creates a competitive disadvantage for post-92 HEIs
2. Mandates use of public service schemes that offer poor value for money for HEIs
3. Increases the likelihood of failure of an HEI
4. Treats the HE sector unfairly
5. Diverts resources away from education and research, and
6. Is leading to fragmentation of the HE sector

1. Creates a competitive disadvantage for post-92 HEIs

As the table below shows, employer contributions for institutions in TPS (England and Wales) are double the level of those in USS. Employee contributions are also significantly higher.

Scheme	Employer Contributions	Employee Contributions	Total Contributions
TPS (E&W) (post-92s)	28.68%	7.4 – 12.0%	36.08 – 40.68%
USS (pre-92s)	14.5%	6.1%	20.6%

The upcoming valuations for both schemes may lead to reductions in the respective employer contribution rates, however a significant disparity is expected to remain.

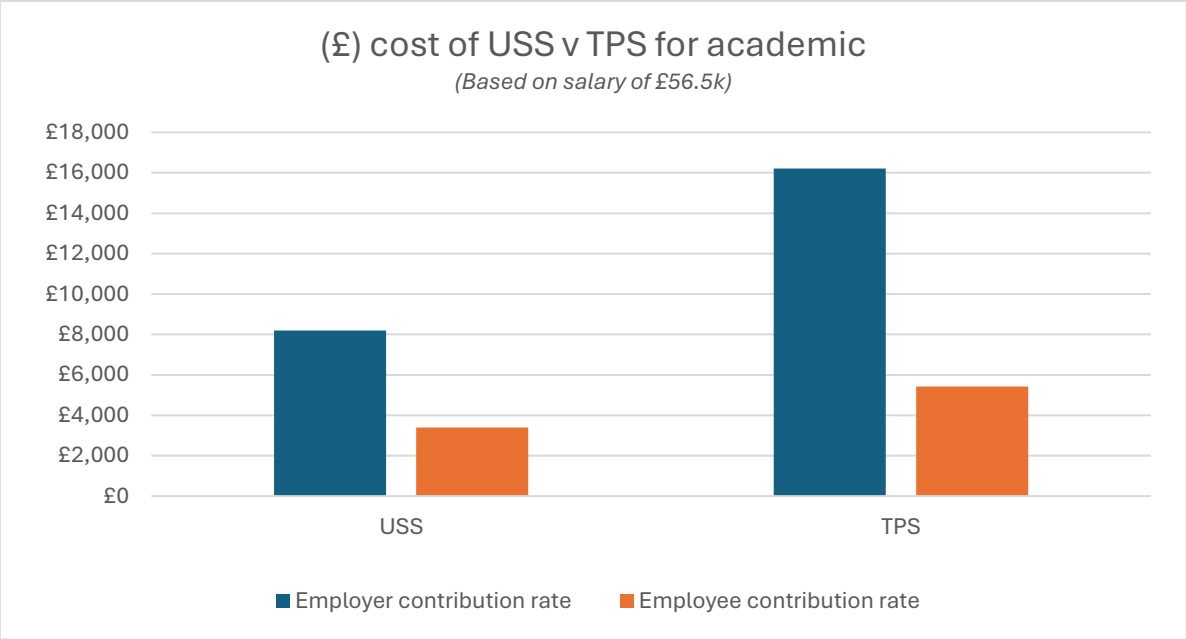
[4] Due to mergers and other organisational transactions many pre-92s have legacy staff in TPS and LGPS and those with a medical school also participate in the NHS Pension Scheme

[5] Having chosen to participate in the USS, pre-92s are bound by the scheme's exclusivity clause, however they are able to offer any scheme to staff who are not 'eligible employees' under the USS rules.

[6] A post-92 may also participate in the Universities Superannuation Scheme (USS) so that where employees are recruited from a pre-92 institution they may opt out of TPS and rejoin USS (this is the employee's choice and permitted by TPS).

[7] These are statutory defined benefit (DB) schemes providing benefits on a national basis across England and Wales, with separate schemes in Scotland and Northern Ireland.

Given many post-92 institutions share geographical locations close to pre-92 institutions they will frequently compete for staff. The disparity between TPS and USS contribution rates makes it significantly more expensive for post-92 institutions to recruit and employ staff as they will be paying virtually double the pension contribution (c.29% compared to c.15%). An academic earning £56.5k would cost a post-92 institution £8k more in pension contribution to employ than a pre-92. The same academic is paying £2k more into TPS than they would if they were a member of USS.



The wide-spread adoption of salary sacrifice for USS contributions, not available for main scheme TPS contributions, and the resulting National Insurance savings a pre-92 is able to make, exacerbates this cost disparity.

This is not a hypothetical situation: post-92s regularly lose staff to pre-92s for this reason – post-92s cannot compete on salary because of the additional cost of pension contributions.

At an institutional level this cost disparity is significant:

- One large post-92 has stated that participating in TPS instead of USS costs them an additional £1.25m a month or around £15m p.a.
- A mid-sized post-92 has calculated that it has cost their institution an additional £14.2m to participate in TPS compared to USS since 2017/18.

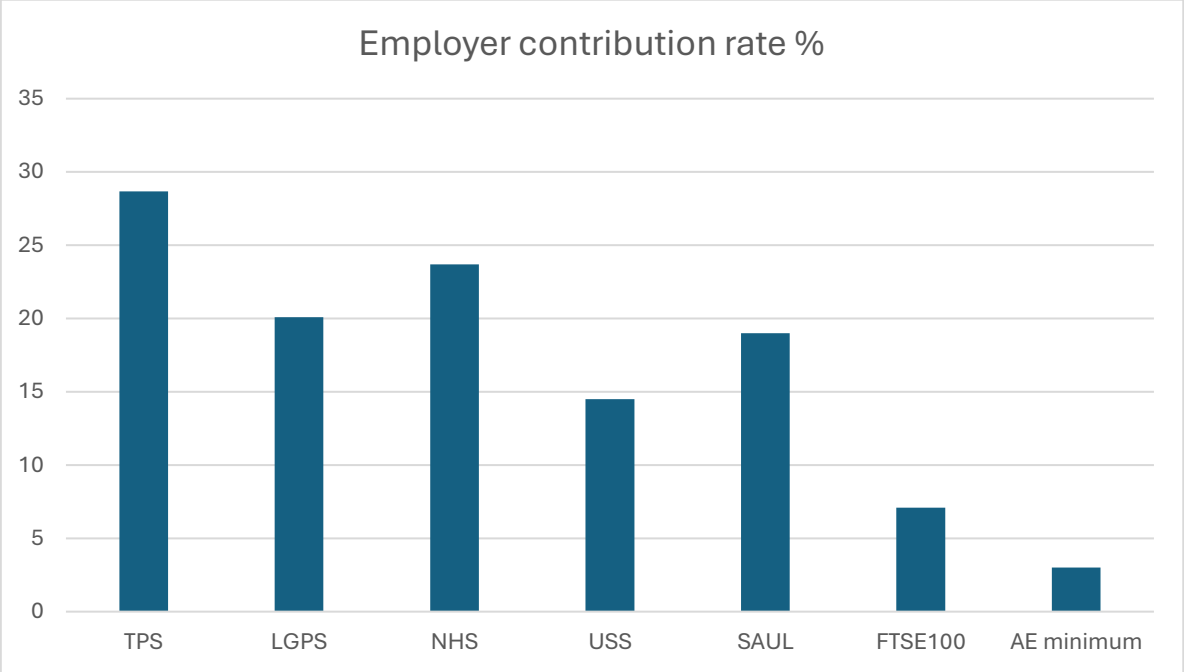
Further, UCEA has reviewed a small sample of HEI financial statements for the year to 2024-25. These indicate that post-92s saw the monetary cost of TPS contributions increase by c.15% while their local pre-92 HEI saw a reduction in USS contributions of c.12%.

These examples highlight clearly that the statutory obligation for post-92 institutions to offer TPS puts them at a significant competitive disadvantage. This position is unfair and for many HEIs is unsustainable.

2. Mandates use of public service schemes that offer poor value for money for HEIs

The Department for Work & Pensions, the Pensions Regulator and the Financial Conduct Authority have established a common assessment framework for Value of Money (VfM). This value for money regime applies across some of the HE schemes, notably USS and SAUL which are master trusts, however these value for money frameworks do not apply to the public service schemes (TPS, LGPS and NHS).

In recent years the Westminster Government has strongly encouraged the HE sector to find cost savings and efficiencies. The Office for Students has also set out its expectations that HEIs manage costs responsibly, showing value for money to students and taxpayers.



HEIs have been working hard to demonstrate value across all areas of spending. Within this context, HEIs' continued obligation to participate in the TPS does not represent 'value for money' for post-92 institutions, their staff, students or taxpayers. Both USS and SAUL offer broadly comparable DB benefits but at a considerably lower cost, for both employers and employees.

3. Increases the likelihood of failure of an HE institution

Public service pension costs are a significant contributor to HE financial distress.
For the financial year 2023-24, seven of the 21 post-92 institutions in deficit would have been in surplus if TPS contribution rates had remained at 2019 levels[8] (i.e. a similar level to USS) or if Government funding had been made available to offset this increase, as was the case for FE colleges.

Forced participation in TPS is directly impacting the sustainability of many HEIs.

[8] UCEA analysis based on 2023-24 HESA data

HEIs have taken many difficult actions to seek to address the continued financial pressures placed on the sector, including restructuring, redundancies, course closures and cutbacks to other services, including those aimed at enhancing the student experience.

In order to survive, and thrive, HEIs must be able to strive for efficiency in every area of expenditure, and that should include the flexibility to participate in pension schemes that offer good value for money. This will improve stability and sustainability for the long term.

4. Treats the HE sector unfairly

UCEA believes HE is the only sector bearing the full cost of TPS (E&W) employer contributions (without any financial support or regulatory flexibility).

Since 2019 HE employer contributions to TPS have increased 12 percentage points, from 16.48% to 28.68% (the rate since April 2024) – a near doubling.

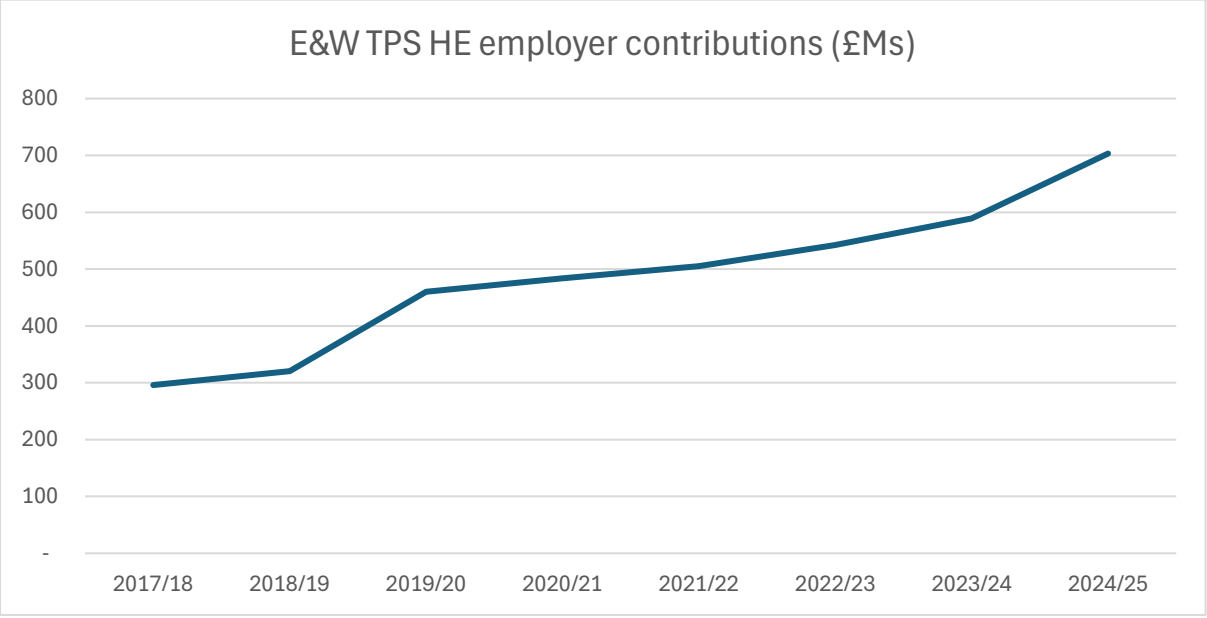
Between September 2019 and July 2023 ***additional*** TPS contributions cost the HE sector c.£600m.

This was equivalent to 1.5 per cent of annual income.

The April 2024 increase alone represents an ***additional*** c.£125m per annum.

This was equivalent to c.1,700 academic roles.

In cash terms contributions from HEIs have more than doubled since 2017/18 (see graph below).



Conversely, FE colleges and schools receive increased funding through departmental budgets to specifically offset the additional costs of TPS. i.e. FE colleges and schools are not expected to find savings to offset the additional costs.

Furthermore, independent schools were able to choose (not mandated) to offer the TPS to their teaching staff. Independent schools, like HEIs, did not receive any funding support towards increases in the TPS employer contributions. The resulting financial pressures led to the introduction of 'phased withdrawal' which allowed existing staff to remain in the TPS, with independent schools able to offer an alternative scheme for new joiners. However, even this form of flexibility is not available to HEIs.

HE is the ONLY educational sector suffering the full consequences of TPS, a scheme offering poor value for money. This is unfair and inappropriate.

The situation for Scottish HEIs is similar, albeit they have received some additional funding to meet the additional costs of the TPS since 2019. As we understand the position, and at the time of writing, this additional funding is no longer in payment.

5. Diverts resources away from education and research

A consequence of mandated use of TPS is that HEIs are spending significant time, effort and resource devising solutions to alleviate the financial strains they are facing. These solutions are complex, often involving significant organisational changes which are timely to implement and, most importantly, detract HEIs from focussing on core activities of education and research.

In addition to internal senior management time and effort that will span HR, Finance and Pensions, significant amounts are having to be spent on consultancy fees and legal advice to explore available options which are outlined in section 6.

Devising and implementing such solutions takes many years (5 to 10 years), creating significant uncertainty for employers and employees.

6. Is leading to fragmentation of the HE sector

Without regulatory flexibility, and given the continuing financial burden of participating in the TPS, individual HEIs are seeking their own solutions. These primarily include the increasing use of subsidiary companies for the specific purpose of employing staff and offering them an alternative to the TPS. To date HEIs have (for example):

- Recruited new professional service staff into subsidiaries
- Recruited new academic and professional staff into subsidiaries
- Transferred existing professional staff into subsidiaries
- Transferred existing professional service and academic staff into subsidiaries.

This increasing use of subsidiary companies for employing staff has led to concerns about fragmentation in the sector on multiple levels:

- A broadening range of workforce practices between pre and post-92 HEIs
- A broadening range of workforce practices amongst post-92 institutions
- An HE workforce with staff potentially offered different terms and conditions (other than pensions)

Employing academic staff through a subsidiary may also impact on the nature and level of research, and research income, an HEI can secure.

IT IS NOW TIME FOR HEIs TO BE GIVEN FULL FLEXIBILITY TO CHOOSE THEIR OWN PENSION ARRANGMENTS

HE participation in TPS (and LGPS) harks back to a time when HE funding came under local government control. That is no longer the case. Furthermore, HEIs are autonomous organisations where Government has no direct role in setting the employment terms and conditions offered to staff working in HE

Whilst FE colleges and schools receive additional departmental budgets to offset incremental TPS costs, the Westminster Government has been clear that additional funding will not be made available. Another solution is therefore required.

Flexibility is essential to enable HEIs to offer a pension that fairly and sustainably helps them to attract and retain high quality academic and professional services staff. Flexibility is also consistent with the Government's position that HEIs are independent and responsible for their own financial wellbeing.

This paper primarily focuses on the issues relating to TPS. In order for HEIs to be independent and responsible for their own financial wellbeing, regulatory change is also required for LGPS, where many of the same issues impact HEIs.

A FURTHER REQUIREMENT FOR THE ACHIEVEMENT OF FULL FLEXIBILITY

Most HEIs that have moved away from public service schemes have done so for new staff only. A small number of HEIs are considering transferring existing staff into a subsidiary or are seeking alternative ways to achieve this same outcome. Continuing financial pressures may force others to do the same.

Flexibility for new staff generates a gradual transition of the workforce to new arrangements. Efficiency savings, and therefore optimal value for money for the HEI, will be achieved over a longer period as staff turnover and retirements occur. Based on staff turnover of 7.3%[9], c.50% of staff will be new after 9 years.

In practice, some HEIs will prefer to continue to offer TPS and many HEIs may be able to manage their approach to sustainability through a gradual transition. However, a gradual transition may not be financially viable for those post-92s in the most precarious financial position.

Full flexibility will allow each HEI to choose if, when and how quickly they transition, adopting a pace of change appropriate to their financial challenges and the retirement savings aspirations of their employees. This is also in keeping with the proposition that the HE sector is financially independent and should seek cost efficiency and good value.

UCEA RECOGNISES THERE WILL BE CONSEQUENCES

TPS is an unfunded scheme – i.e. no asset pool exists, instead HM Treasury receives contributions that are used to pay today's pensioners. As the HE sector moves from TPS to other schemes HMT will receive less 'income'. This will be offset by reduced pension liabilities building up into the future.

[9] Based on 3 year average mean turnover among post-92s from 2021 to 2024. After a period of restructuring in the sector this rate may fall for a number of years.

HE employer contributions are c.£700m per annum. To put these into perspective, HE contributions represent only c.8% of the annual total TPS (E&W) employer contributions paid by all participating employers – a minority.

HE contributions to HMT will gradually reduce as and when HEIs take up alternative pension arrangements. It is important to note that this will occur whether or not flexibility is granted as HEIs implement change through other means, such as subsidiaries.

It is unlikely that all HEIs will take advantage of flexibility immediately and many may prefer a slower transition, limiting any changes to new staff. As a result, any impact on contributions to HMT is likely to be gradual and over many years. UCEA can assist HMT in modelling the impact.

Investments into other schemes will generate Government revenue in other ways and support other public policy ambitions, such as increasing investment into private equity and UK infrastructure.

The minor impact on HMT is likely regardless of whether flexibility is granted. It should not, therefore, be seen as a barrier to offering full flexibility.

WORKING TOGETHER FOR A BETTER FUTURE

UCEA recognises that there may be concerns about changes to pension provision which such flexibility would allow. However, within an increasingly diverse workforce, colleagues will individually have differing aspirations and circumstances when it comes to pension saving.

Although legacy pension arrangements are a significant contributor to the sector's financial pressures, HEIs are fully aware of the importance pensions play and the need for a strong total reward package to attract and retain high quality academics and professional services staff.

However, a significant proportion of TPS members in HE opt-out and, therefore, have no pension provision, no-ill health benefits and no life cover. Current TPS opt out rates for HEIs generally range from 10 to 15%, although some HEIs have seen opt out rates approaching 30% in recent years. The main reasons for opting out are affordability (the reason given by two-thirds of members opting out of TPS) or lack of flexibility for international staff who are not expecting to remain in the UK long term.

Even where HE staff are members of the TPS, this does not necessarily mean that this is the best option for them from a financial perspective. However, many staff have no option but to pay into TPS no matter how high the employer and employee contribution rates are, as there are no other retirement savings options available to them at their institution.

Changes are necessary to address the poor value offered by the public sector pension schemes for employers, their staff, students and taxpayers and ultimately the survival of HEIs in the post-92 sector.

Given the recognition that HEIs are responsible for their financial matters, HE employers need the flexibility to choose their pension arrangements and strive for value in all areas of spending, as well as providing a reward package which best meets the aspirations and needs of their workforces.

Change is inevitable and is already happening. UCEA believes this is best delivered through regulatory reform which retains sector cohesion, rather than action at the level of individual HEIs to establish subsidiary companies purely for the purpose of pension provision affordability and value. Such regulatory change reduces the likelihood of further redundancies, or course closures, and increases the resilience of the HE sector for the future.

As highlighted above, seven of the 21 post-92 institutions in deficit would have been in surplus if TPS contribution rates had remained at 2019 levels or if Government funding had been made available to offset this increase as was the case for FE colleges. We have highlighted that post-92s in TPS are unfairly disadvantaged compared with their pre-92 counterparts who use other pension arrangements.

Increasingly, they are also unfairly disadvantaged when compared to public service employers which receive financial support with their pension scheme contributions (including TPS), and to independent schools which already have flexibility in respect of TPS. TPS contribution costs continue to be a significant contributor to financial distress in the sector.

Without full flexibility, in order to achieve financial efficiencies and sustainability HEIs will continue to be forced down the more complex and convoluted route of setting up subsidiary companies to recruit new staff and potentially transfer existing staff. Fragmentation and the negative impact on education and research will continue.

A priority for HEIs is delivering good pension outcomes more cost effectively. This is not a race to the cheapest option. It is about stability, control and value for money.

HEIs are fully aware of the importance of employee pensions as part of their total reward. HEIs are fully aware that they need to offer a strong total package to attract and retain quality academics and professional services staff. Those HEIs who already offer alternative arrangements offer well above statutory minimums and, in some cases, have been able to offer employees greater choice and flexibility within their total reward package as well.

If HEIs do not make changes to improve long term financial stability then there is an increased likelihood of closure. Closure of an HEI results not just in a change in employee pensions, but loss of HE jobs, including loss of pensions and other benefits, as well as significant economic loss of jobs in and around the areas where HEIs are located. Nobody wants this outcome, but it looks increasingly likely.

Changes to HE pensions are necessary. Too much change has occurred for the sector to return to the past. The direction of travel is clear: a move away from public service schemes. The question is to what extent regulation will support this.

UCEA argues that allowing flexibility via regulatory change is both aligned to the Government's approach to HE and a better alternative for employers and employees to HEIs going down the subsidiary route. HEIs can keep staff employed directly by the university and offer all staff the same terms and conditions. HEIs can focus on delivering high quality teaching and research.