Rt Hon Baroness Jacqui Smith
Minister of State for Skills
Department for Education
Sanctuary Buildings
Great Smith Street
London SW1P 3BT

By email

26 July 2024

Dear Baroness Smith,

Request for government to review the participation of HE institutions in the Teachers' Pension Scheme

I am writing on behalf of the Universities and Colleges Employers Association (UCEA) to congratulate you on your appointment as Minister of State. UCEA is the employers' association for the HE sector and represents 173 Higher Education institutions (HEIs) in relation to pay, pensions and reward issues. This includes c.80 English HEIs that participate in the Teachers' Pension Scheme (TPS) and employ around 7% of the TPS membership. We look forward to working with you in your important role.

In respect of HE financial pressures, there is an important issue regarding pension arrangements which I would like to raise. As you may be aware, the April 2024 increase in TPS employer contributions from 23.68% to 28.68% of pay has severely impacted many HEIs, including the post-92 institutions, during a time of unprecedented financial pressures and is a significant concern to our members. Employer contributions to TPS have increased by 12 percentage points over the last 5 years with no additional government funding provided to the HE sector. In our view this is unsustainable. Sir David Behan's Independent Review of the Office for Students identified the higher employer contributions in TPS as a significant financial pressure on HEIs. To put this into context, pre-92 HEIs have seen their employer contributions to USS fall to 14.5% of pay for their academic staff from January 2024.

While the technicalities may differ, there have recently been changes to the TPS regulations to alter the terms of participation for independent schools. We are also aware of the proposal from United Learning, one of the largest Multi Academy Trusts, to allow their teaching staff to choose a higher salary alongside a defined contribution (DC) pension scheme which they can opt into instead of TPS.

Many HEIs also offer a DC option for staff who find TPS unaffordable or wish to have a more flexible pension scheme. HEIs generally offer more than one pension scheme and post-92s can allow academic staff that transfer from a USS institution to retain USS instead of being required to join TPS. The same is the case for clinical academic staff who are allowed to remain in the NHSPS if they join a medical school – including the new medical schools set up by post-92 institutions as part of the previous government's drive to increase the number of medical students. Maintaining this flexibility is vital as a recruitment and retention tool for HEIs.

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Beyond this existing flexibility, we would reiterate our request for a review of HE participation in TPS. We welcome the Secretary of State's recent statement that "universities are autonomous and there are expectations around how they manage their budgets". We agree that HEIs are independent, autonomous employers. Government has also been clear that HEIs set their own pay and reward package and this principle forms the basis for our request for DfE and HMT to review HE participation in the TPS. It is a legacy issue which is no longer appropriate for HEIs that have long ceased to be under local authority control.

HEIs need both the ability to be able to offer a range of pension schemes to suit the needs of different staff and to manage their reward expenditure appropriately. Therefore, we ask for practical assistance for HEIs to be granted flexibility in relation to their TPS participation. HEIs need to be able to operate their finances to ensure they are sustainable, to protect jobs and to continue to develop the services they provide to students over the long term. Across the affected HEIs, staff costs represent over half their total expenditure, with those HEIs in the TPS spending on average 15% of their total staff cost on pension contributions (HESA data 2022-23). Without any say over their pension scheme offering this is essentially out of the control of the HEI as the employer.

You will be fully aware of the financial pressures on HEIs. Many HEIs are implementing sizeable costs saving measures, including reductions in teaching headcount and in the resources available for students to support their learning and to enhance the student experience. UCEA recently consulted our employers regarding the affordability of a pay award in 2024-25 and the factors that are affecting this. This showed that while 27% of post-92 HEIs had made redundancies in the 2022-23 academic year, 46% had made redundancies since August 2023 with several more announcing the need to cut staff costs this year.

Alongside the request for a review of HE participation in TPS we would also wish to highlight the outstanding consultation from 2019 on HE participation in the LGPS. We will be writing to the new Minister at the Ministry of Housing, Communities and Local Government on this point. Although the specifics of the schemes may differ, the principle remains that post-92 HEIs need greater control over the pension schemes they provide to their staff, now more than ever.

I appreciate that you will have many pressures and calls on your diary, but I would very much welcome the opportunity to meet you to discuss this important issue.

Yours sincerely,

Raj Jethwa

Raj Jethwa
Chief Executive