16 July 2024

Daniel Kebede, NEU General Secretary
Paul Whiteman, General Secretary, NAHT
Dr Patrick Roach, General Secretary, NASUWT
Pepe Di'Iasio, ASCL General Secretary

Dear Daniel, Paul, Patrick and Pepe

Thank you very much for your letter, which I appreciate. I am sorry that this has caused you such alarm. I understand that the reaction at our JNC meeting when this was discussed with members of your teams was much less troubled, which was one of the reasons why we moved forward as we have.

I have spoken to each of you individually in the last week, so you know that I am committed to discussing this fully with you and to addressing concerns. I look forward to doing that and am happy to meet each of you individually or all of you together – whichever you prefer. Please let me know and my office will be glad to set up meetings.

Perhaps in the meantime, I can say some things that you will find reassuring. Firstly, on the substance of what we are proposing, it is set out in summary in the annex to this letter. Perhaps a reason why there was less concern in the JNC room was that colleagues there are aware that we are proposing essentially the same model as we agreed with all unions in relation to our independent school teachers. At the time of this agreement, unions wrote to members hailing the deal as a good one.

Second, as I have said to each of you, we are not in any way removing any current right from any teacher – present or future. All teachers – current and future – will continue to have the right to join or remain in TPS. And for clarity, we are also committed to continuing to pay staff who remain in TPS above national (STPCD) rates of pay, as we do now. The proposed new option is just that – an option. It will be an additional choice for teachers who prefer it. Teachers will be able to move between the two models year-by-year – so that, for example, a teacher might increase pension contributions after a promotion, as they earn more, or reduce them for a period to afford the early years of a mortgage or a period where, say, two children are in childcare.

Third, I should make clear that we won't be encouraging staff to leave TPS as you suggest. We are simply offering an additional option. As you can see from the headlines of the new scheme, the different routes are designed to cost us the same and for this to be baked in – so that it is not now, nor will it ever be, a cost-saving measure. So there is no reason for us to want staff to favour one route or the other. You raise the question of auto-enrolment and I can confirm that,

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as now, teachers will all be automatically enrolled into TPS and remain there unless they actively choose something else.

Fourth, as with our independent school teachers, we will offer staff who are considering moving schemes access to an independent financial adviser, funded by us. We trust our teachers, as I think you should, to make good choices for themselves and see no reason to think that anyone else should deny them a perfectly legitimate choice. Providing access to an IFA will ensure that their choice is well informed without cost to them.

If I may, I'll turn to some of your wider points, though I think that perhaps we can discuss these face-to-face with advantage.

First, you say I should instead lobby for better pay. I don't see this as either/or. I have consistently made the case for funding and pay in schools throughout my career – inside DfE as well as since leaving it. And I have delivered it: as you know, we pay teachers more than anyone else in the sector. We plan to continue to do that for teachers in TPS as well as making this new offer available. We will always make the case for children and schools.

Second, it really isn't true to say that staff would be 'required to opt out of [TPS] in order to receive a decent salary'. Our starting salary of £32,850 (outside London and fringe) is more than 9% higher than the national (STPCD) norm and broadly in line with the median salary for all employment outside London. Furthermore, our commitment to offer a pension with at least 10% employer contributions is significantly ahead of much private sector employment.

I should also make clear that nothing about our proposal is limited to the lower paid. Giving employees flexibility over their remuneration is good in itself and if we are offering it to some, we should offer it to all. For a number of reasons, Heads and senior leaders have at times wanted flexibility between pay and pension and this proposal would be open to these colleagues as well.

Third, our proposals offer a meaningful solution to two live problems, to which I have heard no other solution:

- The growing number of staff opting out of TPS because it is too costly for them. 10% of our teachers under 40 have done so. At present, they are left with no employer contribution to pension. Our proposal would solve that problem by allowing them to have a pay rise and also have 10% employer pension contributions.
- The fact that the labour market is showing us that higher pay and lower pension is more attractive to many good graduates than the current model in teaching. Schools are struggling to recruit in many subjects, while graduates in those subjects are taking private sector jobs with higher headline pay but as little as 3% in employer pension contributions. Our proposal gives us the potential to out-compete a number of employers for a talented new cadre of teachers to teach in our schools. If even a few hundred new teachers were brought into the profession by these proposals, that would have huge benefits to schools in general.

Fourth, implicit in your concern about the impact on the scheme itself is the recognition that this is an option which could be popular with many current and potential future colleagues. If that is so, then that can only be because a significant number of colleagues would see it as a preferable package – which would of course mean that it was a good tool for recruiting and retaining staff. That seems a compelling reason to do it.

And so finally, to your points about the stability of the scheme. As you know, the TPS is an unfunded scheme. There is literally no asset to meet the accumulated liabilities. These future liabilities are underwritten by the taxpayer, are effectively accumulated debt owed by the taxpayer to current and future scheme members and are understood as such in the markets (even if not recorded as officially part of national debt – something the OBR calls 'a fiscal illusion'). There is nothing which current or future teachers can do which can in any way change the level of these future liabilities – and therefore nothing in the present or future pension choices of teachers which can destabilise the scheme for its members.

It is true that public expenditure on unfunded schemes is currently accounted for in AME as the difference between total payments to all the scheme's pensioners and total pension contributions from current employees and their employers. The net cost of TPS in AME has been driven down by the introduction of and then cuts to the SCAPE rate in recent years (from CPI+3% in 2011 to CPI+2.4% in 2018 to CPI+1.7% now) – which have driven up employer contributions from 16.48% as recently as 5 years ago to 28.68% now. This 74% increase in the cost of the scheme to employers in the last 5 years involves no increase at all in benefits to teachers, but sustains the 'fiscal illusion' by minimising the apparent annual cost to the taxpayer (though the reductions to AME have been matched by increases to DEL in the DfE baseline – creating the further illusion of growth in school funding). Implicitly, the TPS borrows from current teachers to pay former teachers who are now pensioners.

But it is not correct to suggest that we must always meet the current pension costs of former teachers from the pension contributions of current employers and employees – that would imply ever higher costs to younger teachers as life expectancy rises – not for their own benefits but for those of the already retired. It should be clear that it is the taxpayer in general – not just current teachers and their employers – who have made and must meet the guarantee to current TPS pensioners. This is understood and priced in by financial markets, which would also see that if a (small or large) number of teachers withdrew from TPS, short term contributions would decline but there would be a matching decline in growth in longer term liabilities. There is therefore nothing in this that would be destabilising to the scheme, even if much larger numbers moved between schemes than I would anticipate.

I hope that this provides some reassurance. I have no intention of attacking the TPS and have said in terms in my article 'TPS remains an excellent scheme, offering extremely good retirement benefits.' The proposal we have put forward is a serious proposition to attract more teachers to schools, which I think we would agree is one of the most significant challenges we face as a system. It is a proposal which I think has important merits and I hope you can approach it with an open mind as something which could offer substantial benefits to your members – and at the least as a serious test of whether such an option could impact significantly on recruitment and retention; but as I say, I am more than willing to discuss your concerns with you.

I look forward to speaking soon.

Yours sincerely

Sir Jon Coles
Chief Executive

Annex: Academy Pension Options – main proposals

All staff will have the choice between the TPS scheme, a defined benefit scheme, and a new defined contribution scheme. The key components of the two schemes and how they apply to staff are set out below.

TPS

United Learning pay scales continue to apply as now. Staff are members of TPS, as now.

Staff remaining in TPS have the option to move to the defined contribution scheme in future, on the same terms as those already in it.

Defined contribution scheme

Staff joining or moving to the defined contribution scheme receive a 5% salary increase (applied as a pensionable allowance) and then either:

- A 20% employer contribution into their new pension; OR
- A 10% employer pension contribution and an additional 10% (non-pensionable) salary allowance.

- They then choose what level of employee contribution to make to their pension scheme (0%, 5%, 10% or other amount).

In future, these staff may choose to move to TPS on same terms as teachers already in TPS (i.e. loss of salary allowance(s) but increased employer pension contributions).

In practice

- All staff currently in TPS remain in TPS unless they choose to move.
- New staff will have the same choices as current staff.
- TPS remains the auto-enrolment scheme – so new staff join TPS unless they opt for the defined contribution option.
- Staff considering moving from TPS to the new scheme will have access to independent financial advice, paid for by United Learning.
- Staff who have opted out of TPS have the option to opt back in to either option.
- Annual progression and cost of living awards work in the same way as now in the two schemes, ensuring that the costs of the two schemes remain in step.
- All staff receive a package of similar value in perpetuity.