

Pensions advice for independent schools: Understanding your Scottish Teachers' Pension Scheme (STPS / STSS) options

With independent schools facing a number of financial challenges, could tackling rising pension costs help put your school on a more secure financial footing?

Market update

In September 2019 independent schools participating in STPS / STSS were faced with a 30% increase in pension contributions (from 17.2% to 23%). In April 2024 the pension contributions costs increased by a further 11% (up to 26%).

As of January 2025, school fees will become subject to vat, and in April next year schools will have their charitable business rate removed. Moreover, the hike in employer NI adds a further burden school's ability to balance the books. It's therefore unsurprising that many schools find themselves reviewing where they can make cost savings to stabilise their finances.

Is it time to review your pension arrangements?

With mounting cost pressures, one option for schools is to consider making changes to teachers' pension arrangements. Across England and Wales latest statistics suggest that as at the end of October 2024, 386 Independent Schools across England and Wales had withdrawn from TPS (since August 2019). A further 249 Independent Schools had applied to become Phased Withdrawal schools since September 2021, this is as a result of rising TPS costs in both September 2019 and most recently in April 2024. Whilst activity has been lower in Scotland more are expected to take action in the coming months.

What are the options?

- 1 Move all teachers to a DC scheme.** This involves moving all your teachers from STPS / STSS to a Defined Contribution (DC) scheme and putting new hires into the DC scheme too. A DC scheme has a fixed employer contribution rate (albeit one that might vary depending on the level of employee contributions chosen by each teacher), giving schools control and certainty over pension costs. The ease with which it can be achieved is likely to depend on the strength of the business case you can make to support exiting STPS / STSS, because you're likely to need teachers to agree a change to their contract of employment.
- 2 Total reward.** Under this option, teachers are given the choice of opting out of TPS into a DC scheme, or staying in TPS, with a reduction in pay to fund the additional STPS / STSS costs. This gives your teachers more choice and may therefore be easier to implement. It does however create additional administration and complexity and may be hard to sustain if STPS / STSS costs keep rising.
- 3 Phased withdrawal.** This option allows you to put your new hires into a DC scheme, while your existing teachers remain in STPS. The school gradually reduces its exposure to STPS / STSS over time as current teachers leave and retire. If it becomes available, it could be combined with the total reward option for existing teachers, to further accelerate the reduction in STPS / STSS exposure.

Options 2 and 3 could be combined.

Some schools may wish to keep their teachers in TPS and manage rising costs through alternative measures e.g pay reviews / staff numbers.

How can Hymans Robertson help?

We're the leading firm of pensions consultants in Scotland with 800 staff based across offices in Glasgow and Edinburgh. We have extensive experience in the independent schools sector, with a proven track record of helping clients to manage their teachers' pension costs. In addition, we run regular free webinars to help schools understand their options, the alternative DC arrangements available, and best practice for running a successful consultation process with teachers. You can find more on [our website](#). We're very aware of restrictions on school budgets, and are happy to work on a fixed-fee basis for a defined scope of work.

In our experience, it typically takes schools 9 – 12 months to make a change to teachers' pension arrangements. Schools who are concerned about the rising financial costs and looking to exit STPS as part of their strategy to control costs should start assessing their options now.

If you would like to know more about how we can help you, please get in touch with one of our experts:



Hannah English

Head of DC Corporate Consulting
020 7082 6228
hannah.english@hymans.co.uk



Sue Waites

Partner
020 7082 6282
susan.waites@hymans.co.uk