HYMANS ROBERTSON

Pensions advice for independent schools:

Understanding your Teachers' Pension Scheme 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 April 2024 independent schools participating in TPS were faced with a ›20% increase in pension contributions (from 23.6% to 28.6%). In May 2024 it was announced that there will be a General Election on 4 July. The Labour government have already announced that if they win they would look to impose VAT on fees. 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Wales latest statistics suggest that as at the end of May 2024, 363 Independent Schools across England and Wales had withdrawn from TPS (since August 2019). A further 201 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. 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 TPS 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 TPS, because you are 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 TPS costs beyond what you would offer in the DC scheme. 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 TPS 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 TPS. The school gradually reduces its exposure to TPS 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 TPS exposure.

You can combine options 2 and 3.

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How can Hymans Robertson help?

We are the leading firm of pensions consultants with extensive experience in the independent schools sector and 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. With the risk of a new government imposing vat on fees following a General Election, combined with recent increases in TPS costs, schools looking to exit TPS as part of their strategy to control costs, should be 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:

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