

Pensions advice for independent schools:

Understanding your Teachers' Pension Scheme (TPS) options

With over 200 independent schools having now left TPS, and a new Phased Withdrawal option expected to be viable from the Spring, which of the TPS options best suits your needs?

Market update

There are three recent developments to be aware of in relation to independent schools and TPS:

- 1 More exits.** The latest Freedom of Information request, as at 14 December 2020, shows that 207 independent schools have now left TPS since January 2019. Given the TPS employer contribution rate stepped up from 16% to 24% in September 2019, we expect that the vast majority of these exits were driven by these cost increases. It means that nearly 20% of independent schools that were in TPS have now left. As only around half of independent schools were in TPS in the first place, those remaining in TPS are now in the minority.
- 2 A new exit option.** The DfE consultation response on the new option of Phased Withdrawal came out in November 2020 and confirmed that, subject to completion of the required regulations, this option will become possible from Spring 2021.
- 3 Higher costs from April 2024** The next contribution review for TPS takes effect from April 2024 and is expected to lead to further cost increases, with some commentators expecting the employer contribution rate to rise to over 30%.

What are my options for managing TPS costs?

The main options that you now have for controlling your TPS costs and risks are as follows:

- 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), meaning this gives schools control and cost certainty.
- 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. This gives your teachers more choice but comes with additional implementation and administrative complexity.
- 3 Phased withdrawal.** This is the new option that is expected to be available from Spring 2021 (and certainly from the next academic year), whereby new hires are put into a DC scheme, but your existing teachers remain in TPS. The school gradually reduces its exposure to TPS over time as current teachers leave and retire. It could be combined with the total reward option, for existing teachers, to further accelerate the reduction in TPS exposure.

Which option is best for your school?

The table below gives a high-level summary of the pros and cons of each option:

Working back from a likely increase in contributions in April 2024, schools wishing to avoid a cost increase need to have implemented their preferred solution in the 2022/23 academic year, meaning in our view schools should be assessing their TPS options and setting their strategy in the current academic year.

Option	Pros	Cons	Best for...
1) Move all teachers to a DC scheme	<ul style="list-style-type: none"> Achieve cost certainty All teachers retain the same pension benefits Long-term solution 	<ul style="list-style-type: none"> More disruptive change Potential to impact both recruitment and retention of teachers 	...schools that need to achieve savings immediately
2) Total reward	<ul style="list-style-type: none"> Gives teachers choices, which mitigates recruitment and retention risks 	<ul style="list-style-type: none"> Needs revisiting at each TPS review. May not be sustainable in long-term Risk of challenge – were teachers able to make informed decisions about their options? 	...schools that have the time and resource to implement a more complex solution that retains choices for teachers
3) Phased withdrawal	<ul style="list-style-type: none"> Does not disturb benefits for existing teachers, which mitigates retention risk Reduces TPS costs and risk over the long-term - Straightforward implementation 	<ul style="list-style-type: none"> No significant short-term impact on costs Doesn't manage recruitment risk Introduces a 2-tier workforce Timing uncertainty as still needs new regulations 	...schools that want to address TPS costs and risks over the long-term, or want to take easier steps in the short term to start to address TPS costs.

If you would like to discuss your TPS options, then please get in touch with one of our experts.



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