HYMANS # ROBERTSON

Pensions advice for independent schools

Teachers' Pension Scheme (TPS) contributions increased by 40% in 2019. The 2020 valuation is currently underway and whilst the new employers' contribution rate to TPS has not yet been confirmed, it's expected that the employer rate will increase significantly from current levels, potentially resulting in increases by a further 20%.

Since 2019, over a quarter of independent schools have left the TPS and many others have taken action short of a complete exit. If you're still to take action, then now is the time to consider your pensions options for teachers.

Market update

Latest statistics suggest that as at the end of May 2023, 324 Independent Schools across England and Wales had withdrawn from TPS (since August 2019) and 6 had notified the Department for Education (DfE) of their intention to do so. A further 93 Independent Schools had applied to become Phased Withdrawal schools since September 2021.

In our experience, many others are considering their options, or are in a consultation process now.

Why consider your options now?

There are 3 key reasons to take action now:

1. **Mitigate the risk of further TPS cost increases**
   TPS costs are expected to rise significantly again in 2024 off the back of the 31 March 2020 valuation of the scheme.

   Current costs are 23.68% and it is expected that costs could rise by an additional 5% pa. This increase on contribution costs, combined with higher running costs, the risk of a new government imposing vat on fees and removing business rate relief, means you may want to act now to manage your TPS costs.

2. **Allow time for agreeing new strategy**
   We don't expect to have the results of the 2020 valuation until late 2023. That means there is a risk schools have insufficient time to agree and implement a new pension strategy between the announcement date and the increase date.

   Schools should therefore review their options now and agree a strategy and allow time for consultation.

3. **Recruitment and retention impact should now be lower**
   The risk of being an early mover has largely disappeared now and, in our experience, retention and recruitment has not been particularly adversely impacted for schools that have exited.

What are the alternative pensions options for teachers?

There are a range of solutions available to help manage the TPS cost increase:

1. **Move all teachers to a DC scheme**. This is the most straightforward solution and gives cost certainty, but generally imposes a change on teachers. Options are available with this solution though to give teachers choice, such as swapping pension contributions for salary or other reward.

2. **Total reward solution.** Under this solution, 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 approach does give teachers choice, but may not be a sustainable solution for the long-term if TPS costs continue to rise. Schools should also consider the additional administration required to run a total reward solution and what support they would need to provide to enable staff to make an informed choice.

3. **Mixed economy solution.** This is the approach that DfE consulted on in 2019, whereby a school keeps current hires in TPS but makes alternative pension arrangements for new hires. This doesn't disturb pension benefits for current teachers, and gradually addresses the increased costs in TPS. However, the cost savings will only come through over a long timeframe, particularly if staff turnover is low.

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How do you run a successful consultation process?

If you decide to develop a proposal for exiting TPS, it's crucial to get that proposal and the accompanying consultation process right. From our experience of working with schools that have already exited TPS, these are the key areas to get right in a consultation process:

A compelling business case – your teachers will understand the need for change if the business case is really compelling. So, for example, the cost increases may be unaffordable, and this change is required to protect the longer term sustainability of the school and ultimately jobs.

A decent replacement offer – maintaining the school's spend at 24% (or more) enables the message to be about stabilising cost rather than reducing cost. A 24% employer contribution rate remains very competitive relative to broader UK pension contribution levels, and in many cases will provide a reasonable retirement income based on modelling we have completed.

A genuine consultation process – your consultation process needs to be genuine, open and bring teachers with you. It needs to avoid being perceived as a 'done deal'. Listen to teachers, and representatives, during the consultation process and consider if your proposal can be revised in some areas to address any of their feedback.

If you haven't started considering your TPS options yet, then now is the time to be doing it. Please get in touch with one of our experts if you would like to discuss your options and how you go about developing a proposal:

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