

Pensions advice for independent schools

UNDERSTANDING YOUR TEACHERS' PENSION SCHEME (TPS) OPTIONS

Higher running costs, the risk of a new government imposing VAT on fees and/or removing business rate relief and spiralling pension contributions. The financial pressures on independent schools continue to build. Is now the time to take action to manage your pension costs?

TPS valuation update

Since TPS contributions increased by 40% in 2019 there has been speculation that the 2020 valuation will result in further increases. Recent developments mean this eventuality now seems more certain. Contributions are expected to increase from April 2024 onwards.

SCAPE discount rate: This is one of the key assumptions used in the valuation. HMT has confirmed that the rate to be used will be lower than it was in 2016. All other things being equal this will result in higher contributions to TPS.

Other valuation assumptions: These are still to be confirmed (eg changes in life expectancy). Even if they have a favourable impact, it is highly unlikely it would be sufficient to completely offset the impact of the change in the SCAPE rate.

Government funding: The government has acknowledged that TPS contributions are likely to increase and agreed to provide financial support for centrally funded employers, including maintained schools. It seems likely that, as in 2019, independent schools will need to cover the increase in costs from their own resources.

Options for managing TPS costs

Since 2019, 330 independent schools have left TPS, 93 have stopped putting new teachers into TPS and many others have taken action to manage their pension costs. If you are yet to take action, your options are:

Move all teachers to a DC scheme: This involves cutting all ties with TPS. Existing teachers and new hires are instead put in a Defined Contribution (DC) scheme. This is the only option that gives you complete control over your pension costs.

Total reward: This option allows teachers to choose between leaving TPS and joining a DC scheme or staying in TPS with a reduction in pay to fund the additional costs. It gives your teachers choice, but does come with some additional administrative complexity.

Phased withdrawal: Under this option, existing teachers remain in TPS and new hires are put into a DC scheme. This is a longer-term cost control option, as savings may take years to come through. It could be combined with the total reward option to further accelerate the reduction in TPS exposure.

Which option should we take?

Each school has its own unique set of circumstances. Careful consideration of all the options, taking into account finances and the views of your teachers, is key to coming up with a solution that can be successfully implemented. The table below gives some pointers on what you should consider.

Option	Pros	Cons	Best for...
Move all teachers to a DC scheme	<ul style="list-style-type: none">• Cost certainty• All teachers on same benefits	<ul style="list-style-type: none">• Requires contractual changes• May impact recruitment / retention	Schools that need immediate savings
Total reward	<ul style="list-style-type: none">• Cost control• Choice mitigates recruitment / retention risks• Could agree framework ahead of contribution increase being known	<ul style="list-style-type: none">• Likely to need contractual changes• More complex to explain and implement	Schools that have time and resource to implement and manage a more complex solution
Phased withdrawal	<ul style="list-style-type: none">• Mitigates retention risk• Easiest to implement	<ul style="list-style-type: none">• No short-term savings• Recruitment risk remains• Introduces 2-tier workforce	Schools that can afford to take a long-term approach or want to take an initial step to start managing costs

When should we act?

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. Consultation with teachers often takes longer than anticipated so it would be advisable to start discussions even if the outcome cannot be fully concluded until the size of the increase is known.

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



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