

Pensions advice for independent schools:

Understanding your Scottish Teachers' Pension Scheme (STPS / STSS) options

With independent schools in Scotland 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%). The STSP / STSS 2020 valuations are currently underway and it's expected that pension contributions could increase again in April 2024 by a further c.5% (up to c.28%).

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 nearly a quarter of schools that were in TPS in 2019 have given notice to leave and 26 schools have applied for phased withdrawal in response to a similar increase in employer contributions in 2019. More are expected to do so in the coming months, due to similar TPS expect pension contribution increases in April 2024.

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 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 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.

How can Hymans Robertson help?

We are 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 at: <https://www.hymans.co.uk/services/pensions-advice-for-independent-schools/>. 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 expected increase in pension contribution cost from April 2024, combined with the risk of a new government imposing vat on fees, schools looking to exit STPS / STSS 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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