

# Independent schools pensions briefing, November 2020

## Phased withdrawal to be implemented in Spring 2021

Last year, the Government consulted on the introduction of a phased withdrawal option in the Teachers' Pension Scheme (TPS) for independent schools.

Now, 12 months later, the Government has responded, expressing its intention to insert phased withdrawal into TPS regulations in spring 2021.

This briefing looks at the consultation response and outlines options for independent schools.

### All in, or all out

To date, independent schools, as *accepted schools* in TPS regulations, have been required to automatically enrol all eligible teaching staff in the TPS. Very few teachers have tended to opt-out.

The impact of increased TPS contributions for independent schools in September 2019 cannot be overstated. A 43% increase in the cost of pensions provision for teaching staff has forced many schools to rethink their pension and remuneration policies.

As is well known, subject to consultation, independent schools can leave the TPS and offer a replacement pension scheme. In August 2020, a Freedom of Information request showed that 178 independent schools have served notice to leave the TPS since 1 September 2018.

This number will have grown since the summer, and does not include schools that are either still considering the way forward or introducing a cost-sharing mechanism, where teachers can stay in the TPS on different terms.

### What is phased withdrawal?

The *phased withdrawal* proposal was developed by the Department for Education in conjunction with the Independent Schools Council and the Independent School Bursars' Association, with a public consultation running from 9 September 2019 to 3 November 2019.

The policy aimed to replace the 'all in, or all out' nature of independent schools' participation in the TPS with an option to close the TPS to new teaching staff.

Effectively, a school could draw a line in the sand – with existing staff staying in the TPS, and new staff offered an alternative (likely to be a Defined Contribution scheme as discussed in our [last briefing](#)).

### The consultation response

The government confirmed that phased withdrawal from the TPS will become a reality, planned for spring 2021. This should not come as a surprise as Her Majesty's Treasury will be keen to continue collecting TPS contributions from schools and teachers to pay for benefits already in payment.

The consultation received 645 responses, including one from First Actuarial, with 54 from employers.

Over 80% of respondents were either fully supportive or supported the proposal while expressing views on alternative approaches.

Nearly 60% of respondents fully agreed that phased withdrawal could help independent schools to manage financial pressures associated with the increased TPS costs, with the rest almost split 50/50 between partially agreeing and disagreeing.

There are concerns that some schools that would have otherwise considered leaving the TPS will instead opt for phased withdrawal, and may use it as a stepping stone to a full exit.

Policy intentions include the protection of existing teachers' eligibility – such as opt-outs at the time of introducing the phased withdrawal, making teachers subject to a compulsory transfer to a successor body (e.g. on merger), and when returning from non-pensionable leave (e.g. family or sick leave).

### Make sure you consider all the options

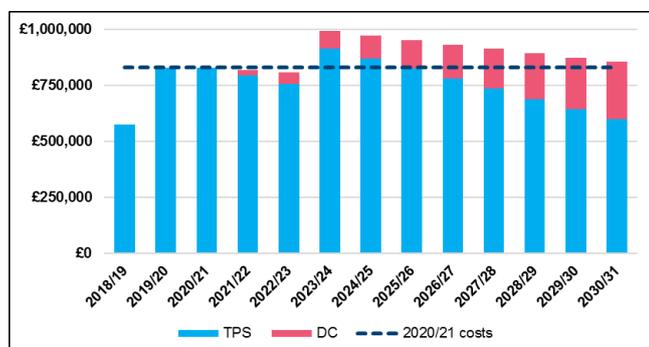
While phased withdrawal was once a possibility, this will now become a reality. There is now an even stronger case for schools to robustly consider all the options available, based on their specific principles and objectives.

Phased withdrawal may seem attractive, but are schools comfortable offering two-tier pensions for teaching staff? (Note that this has been the case with supporting staff for many years.) An alternative pension scheme, alongside the wider remuneration package, will need to be competitive to attract new teachers.

The impact of phased withdrawal on a school's budget depends on staff turnover, so it won't automatically yield significant savings in the short, or even the medium term.

Also, as discussed in our [Q2 2020 briefing](#), there is great uncertainty around the results of the 2020 TPS valuation, and ongoing membership of the TPS means continued exposure to further contribution increases.

The chart below shows how a school's pension costs under phased withdrawal may project over time (in today's money).



#### Assumptions:

Teacher pensionable payroll of £3.5m  
 Payroll turnover from TPS to DC of £150,000 each year  
 School DC rate is 17%  
 TPS employer rate increases to 30% in 2023 (highly speculative)  
 TPS employer rate unchanged from 2023

We have helped many schools consult on an exit from the TPS and implement a new scheme, and schools that remain in the TPS are increasingly looking for another solution. Phased withdrawal can now be modelled and considered as a serious option.

Many conversations are also opening up on the *hybrid* approach – offering a remuneration package with a fixed employer cost ceiling. Teachers can choose between continued membership of the TPS (perhaps at greater cost) or a DC alternative which offers greater flexibility.

We can model the financial impact of these options for you.

### How First Actuarial can help

First Actuarial is a nationwide firm of pensions actuaries and consultants, helping independent schools with all their pensions issues.

We help schools develop their pensions strategy and manage pension change projects. We also provide training, modelling, DC contribution design, DC provider selection and consultation support services.

We offer a unique blend of public service pensions expertise, consultancy and communication skills. We are adept at running remote meetings, for both governors and teachers.

To discuss any of the areas explored in this briefing, contact your usual First Actuarial consultant or any of the lead consultants in our Education team below:

#### Declan Keohane (Basingstoke)

E: [declan.keohane@firstactuarial.co.uk](mailto:declan.keohane@firstactuarial.co.uk)  
 T: 01256 297 789



#### John Ingoe (Leeds)

E: [john.ingoe@firstactuarial.co.uk](mailto:john.ingoe@firstactuarial.co.uk)  
 T: 0113 818 7365



#### Dale Walmsley (Manchester)

E: [dale.walmsley@firstactuarial.co.uk](mailto:dale.walmsley@firstactuarial.co.uk)  
 T: 0161 348 7464



#### Peter Norman (Peterborough)

E: [peter.norman@firstactuarial.co.uk](mailto:peter.norman@firstactuarial.co.uk)  
 T: 01733 447 681



#### Marcos Abreu (Tonbridge)

E: [marcos.abreu@firstactuarial.co.uk](mailto:marcos.abreu@firstactuarial.co.uk)  
 T: 01732 207 507

