

Pensions advice for independent schools

Independent schools are facing many financial challenges. Teachers' Pension Scheme (TPS) and Scottish Teachers' Pensions Scheme (STPS) costs increased in April 2024, with the Employer contribution rate now 28.68% and 26.00%, respectively. Higher contributions, combined with the Labour government imposing VAT on fees and the NI hike in April 2025, mean the financial pressures on independent schools continue to build.

MARKET UPDATE

Latest statistics suggest that as of 23 April 2025, 401 Independent Schools across England and Wales had withdrawn from TPS since August 2019, and three had notified of their intention to leave TPS. A further 282 Independent Schools had applied to become Phased Withdrawal schools since September 2021.

In our experience, an increasing number of others are considering their options or are in a consultation process now.

WHY CONSIDER YOUR OPTIONS NOW?



MANAGE THE RISK OF FURTHER COST INCREASES

We've now seen a succession of increases in the contributions schools are required to make to TPS/STPS over recent years. The next valuation of the TPS is already underway, and TPS employer and employee rates could be revised again once the results are reviewed. Benefits earned by teachers are unchanged, so any increase in TPS costs means schools are paying more money for their teachers to earn the same benefits. Schools should therefore assess whether remaining in TPS/STPS continues to represent good value for money.



MINIMISE THE FINANCIAL IMPACT OF VAT ON FEES

The new Labour government imposed VAT on school fees, increasing the financial pressure on schools. Many schools are continuing to look at cost savings as part of their strategy to minimise the fee increases needed to balance the books. Pension contributions are a material cost that schools can control, so it makes sense to consider a change in pension strategy as part of the solution.



RECRUITMENT AND RETENTION IMPACT IS NOW LOWER

The risk of being an early mover has disappeared and, in our experience, retention and recruitment have not been particularly adversely impacted for schools that have exited.

HOW WE CAN HELP

We advise over 100 third sector and charity clients, including independent schools. We have successfully guided many of our independent school clients through a TPS exit, or other changes to manage pension costs, right through from the business case to consultation and final implementation.

WHAT ARE THE ALTERNATIVE PENSION OPTIONS FOR TEACHERS?

There are a range of solutions available to help manage TPS/STPS cost increases:

- 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 rewards.
- 2** Total reward solution. Under this solution, teachers are given the choice of opting out of TPS/STPS into a DC scheme or staying in TPS/STPS with a reduction in pay to fund the additional TPS/STPS 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 option allows schools to keep current hires in TPS/STPS 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/STPS. However, the cost savings will only come through over a long timeframe, particularly if staff turnover is low.

A number of schools we have worked with have combined options 2 and 3.

HOW DO YOU RUN A SUCCESSFUL CONSULTATION PROCESS?

If you decide to develop a proposal for changing your current pension arrangements, it's crucial to get the proposal and the accompanying consultation process right. From our experience of working with schools, 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 enables the message to be about stabilising cost rather than reducing cost. Offering DC rates similar to TPS/STPS rates before the most recent increase gives an employer contribution rate that 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 or STPS options yet, now's the time. Contact one of our experts to discuss your next steps and how to develop a strong proposal.



If you would like to discuss anything further, or have any questions, please reach out to one of our authors below or get in touch [here](#).



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