



Scottish Teachers' Pension Scheme 2015

What is Phased Withdrawal and how will it help Scottish independent schools who are considering their pension options?

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In January 2023 the Scottish Government published its long awaited response to the consultation on Phased Withdrawal from the Scottish Teachers' Pension Scheme 2015 (STPS).

At a high level, Phased Withdrawal allows an independent school to retain STPS for existing teaching staff but to provide alternative pension arrangements for new teaching hires. The consultation response indicates that regulations will be introduced by summer 2023 at the latest, therefore suggesting Phased Withdrawal will be available for independent schools from **September 2023**.

In this briefing note we explore what the Phased Withdrawal option might mean for Scottish independent schools, noting that there will be further detail to digest on this option in due course.

Background

In 2018 the Government announced that the contribution rate required from schools who participate in the STPS would increase from 17.2% of pay to 23% from 1 September 2019. This was in addition to the contributions which are paid by teachers themselves.

These increases have created challenges for many independent schools and, in May 2022, the Government launched a consultation in response to a proposal by the Scottish Council for Independent Schools to mitigate some of these risks. This follows on from implementation of Phased Withdrawal in the Teachers' Pension Scheme (TPS) in England and Wales from August 2021 (which itself followed a lengthy consultation process).

The consultation closed on 29 July 2022 and the response includes some interesting reading, including the views of the 19 consultation respondents on various matters. The responses came from a variety of respondents including members, Scottish independent schools, and trade unions.

According to a Freedom of Information request, around two thirds of independent schools in Scotland participate in STPS (72 schools). The consultation response notes that teachers at Scottish independent schools account for just over 4% of the overall active membership of STPS; the independent school sector is therefore important for STPS overall but needs to be seen in this wider context.

In light of the current financial pressures facing schools – loss of rate relief, increased energy costs and pressure on staffing costs – a significant number of independent schools are considering their options around STPS. Indeed, even before HM Treasury has announced the results of the 2020 valuation of STPS, we are aware of schools commencing consultation with teachers on exit from STPS and anticipate this number will rise in the coming year.

What is 'Phased Withdrawal'?

Currently, an independent school decides whether or not to offer STPS to its teaching staff. If it chooses to offer STPS then it must do so as the default for all teaching staff; this includes current teachers and new

teaching hires in the future. Interestingly, where an independent school offers STPS, teachers do not need to accept the offer. This subtlety has led to many independent schools – including some in Scotland – developing some alternative or “parallel” pension offerings to provide teachers with more options to shape their benefit package for their individual needs.

Phased Withdrawal is where an independent school offering STPS “freezes” its participation at a point in time. Teachers who were employed by the school before the freeze date would continue to receive STPS as their default arrangement, whereas new hires would not be entitled to join. A consequence of this is that the school’s membership in STPS reduces over time as teachers retire and leave. Ultimately, when the last of the “pre freeze” teachers leave employment, the school would have withdrawn its membership of STPS; i.e. the withdrawal is phased over time.

The “pre freeze” teachers who remain in STPS would continue to build up new benefits in line with the rules of the STPS.

Easements

The consultation response confirmed the protections that will be included for some teachers so they can re-enrol in STPS in the following circumstances:

- A teacher who had opted-out of STPS, assuming the opt-out was in place at the time that the school adopted phased withdrawal.
- A teacher returning from non-pensionable family leave or non-pensionable sick leave where the period is covered by statutory rights or their contract of employment.

It’s also worth noting that the consultation response confirms that schools would be able to opt back in to STPS and ‘un-freeze’ their participation at a later date, although in that situation the school would then need to make STPS available to all eligible teaching staff.

How can Phased Withdrawal be used?

Phased Withdrawal gives independent schools in Scotland another arrow in their quiver to address pension matters. We view this as a welcome position to help independent schools manage their expenditure and risks.

For those Scottish independent schools who are already consulting on future pension provision, we expect they will have already considered the potential use of the Phased Withdrawal option. And its availability is, perhaps, unlikely to have changed their position.

However, it also adds to what is already a complex matter for independent schools currently considering their options. We would suggest the design of any alternative option is very carefully considered, relative to the unique circumstances of each school.

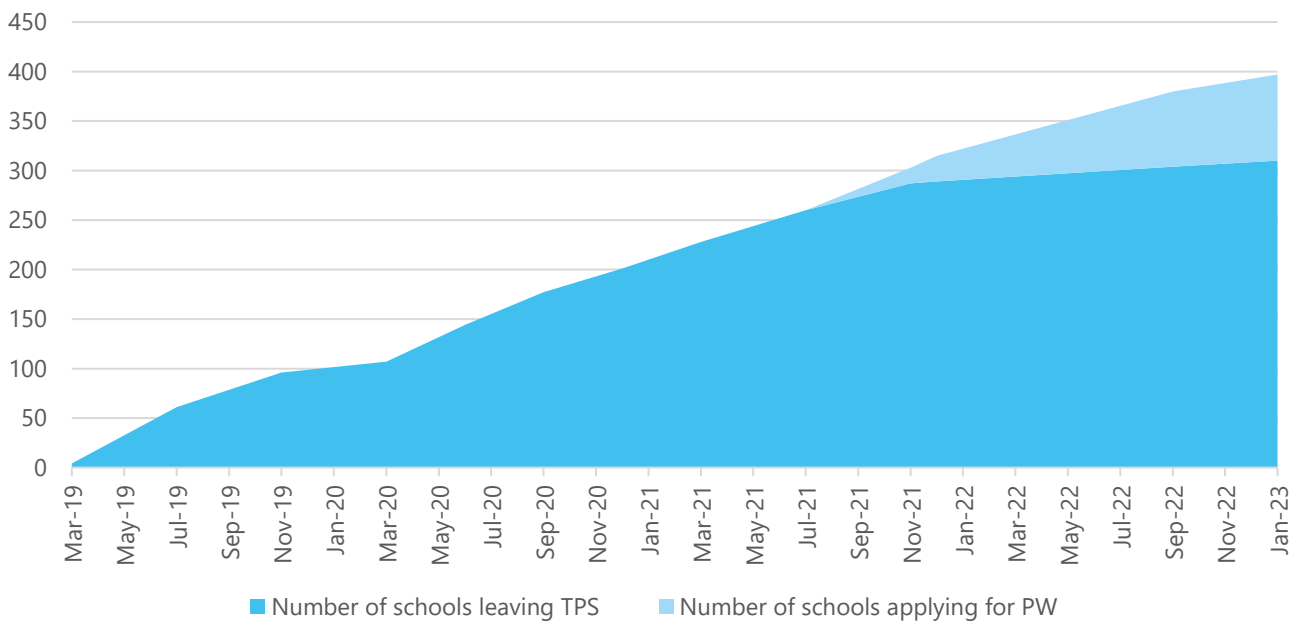
One particularly interesting situation to consider is where an independent school has introduced, or is introducing, an alternative pension option on a parallel basis. These schools might be interested in combining the options with the parallel option becoming the default for new hires. A key consideration here is whether benefit spend is the same under all the differing pension offerings. If you offer an alternative under the parallel option and Phased Withdrawal that has the same cost as STPS, then some of the challenges outlined below may be more manageable.

Finally, this also presents a further option for an independent school to consider their pension provision more holistically across all staff. The ability to reshape benefits for new teachers presents opportunities for

considering design alongside support staff pensions. Our view is very much that pensions are just one part of the overall remuneration package and there are some excellent opportunities to consider wider benefit offerings as well as pensions.

Evidence from TPS

In England and Wales, there were 1,170 independent schools participating in TPS (broadly half of the sector) at the start of 2019. The chart below shows that by the beginning of 2023, 310 schools (26%) had exited TPS or indicated an intention to do so. At the same point 87 independent schools had applied for Phased Withdrawal.



Information source: Freedom of Information requests (various) 2020-2023.

Of those independent schools who remain in TPS, a significant number are considering their options around ongoing participation, including whether Phased Withdrawal is suitable.

For schools in TPS, we have tended to see Phased Withdrawal used in two main ways.

- To reduce costs – a defined contribution (DC) alternative is provided at a lower contribution rate than TPS. Here, it is important that care is taken at the ‘design’ phase as any contribution structure ideally needs to be future proofed in case full exit is proposed in the future.
- As an initial step prior to exit – limiting the number of teachers in TPS.

Are there any disadvantages?

Offering a split level benefit structure for teachers in identical roles will likely cause challenges, and this was a concern raised by the trade unions during the consultation. This is arguably less of an issue if an alternative pension or benefit offering is based on an equivalent overall spend, but there will still be challenges to overcome. Where a split benefit is offered this will aid retention but could cause tensions and also adds to work administering multiple arrangements. Split level benefits may also reduce the movement of teachers between schools (existing teachers that may otherwise have moved could stay due to the value placed on STPS

membership) which could hamper a school's ability to take opportunities or, more generally, affect the healthy movement of staff.

Phased Withdrawal is unlikely to generate a significant cost saving in the short term, as it relies on staff turnover to have a material impact. This means that for independent schools where there is a concern over longer term affordability of STPS this is unlikely to change their position.

There are also future risks of STPS membership that would not be removed using this option; for example, the potential for further increases to contribution rates (in respect of existing teaching staff) following the 31 March 2020 valuation, and potentially even political risks such as an introduction of an exit charge mechanism. There are also potential arguments that introducing Phased Withdrawal might dampen down the business case if a school wanted to make a more fundamental change in the future.

What else was considered?

As part of the consultation a number of different options were presented by respondents. These included:

- Introduction of salary sacrifice for pension contributions, resulting in a National Insurance saving for both the school and teachers.
- Introduction of flexibility to split the school / teacher contribution differently.

Whilst seemingly discounted for now, these could come onto the agenda in the future, and these have been used elsewhere before.

What next?

For Scottish independent schools currently considering their options we would suggest that Phased Withdrawal is included in those considerations, noting that for some schools it may be readily discounted as not fulfilling their objectives. In the case of schools who have already taken action (other than exiting TPS), there is likely to be an action in the future to reconsider STPS membership; i.e. once the results of the 31 March 2020 valuation are available and any increases to contribution rates known. At this point, Phased Withdrawal should be reconsidered alongside the other options available.

Finally, whatever decisions are made now can of course be revisited in the future and there is the possibility of further change; for example, moving from Phased Withdrawal to full withdrawal if, say, circumstances change. Once a decision has been made as to what the school is proposing, the school needs to decide how to communicate their intention to teachers, particularly if existing staff have the option to opt into an alternative. We believe this step to be vitally important, and the most successful exercises we have been involved in have ensured that teachers are at the heart.



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