

# Workplace Pension options for independent schools



This is for adviser use only and shouldn't be relied upon by any other person.

If you're thinking about changing pension arrangements for your teaching staff, it's important to know what your options are.

**We know that choosing the right workplace pension is a big decision, so we've outlined some of the options available to you, and what each option could mean for you and your employees.**

We've based this information on our experience and decisions that other independent schools have made. There may be other options available to you.

# Option 1

## Stay in Teachers' Pension Scheme (TPS). No change to current arrangements.

### If you choose this option

- All of your existing and future eligible teachers will have access to TPS.
- They'll continue to build up their pension benefits in TPS, unless they opt out.
- You and your employees will pay the contribution rates set by the government.
- You'll continue to offer and administer two pension schemes, or more if applicable, for teaching and non teaching staff.
- You can review your decision to leave TPS at any time. You may want to do this when the government announces its decision on whether a phased withdrawal from TPS will be allowed.

### What are the advantages?

- ✓ There's no need for contractual changes or a consultation period.
- ✓ You won't have any additional professional costs, such as financial or legal advice costs.
- ✓ There'll be no change to your administrative costs.
- ✓ Future employees will benefit from joining TPS, or retaining access to TPS if they come from a public or private sector school that offers TPS. This could be an advantage in the recruitment market.
- ✓ The value of your employees' pension benefits at retirement are likely to be higher than those they'd build up in any alternative pension scheme.

### What are the disadvantages?

- ✗ The government will continue to set the future employer and employee contribution rates, and increases to the TPS. You risk further changes in future.
- ✗ The cost of TPS may be considerably higher than other workplace pension options.
- ✗ There'll be no potential National Insurance Contribution (NIC) savings for your employees, and no tax relief for those who earn less than the Personal Allowance.

# Option 2

## Exit TPS. Offer an alternative defined contribution workplace pension.

### If you choose this option

- They'll automatically be enrolled in the alternative workplace pension scheme, unless they opt out.
- Your teachers will no longer be able to build up benefits in TPS.
- The benefits of teachers who've contributed to the TPS will be deferred until retirement, unless they re-join with another employer or transfer their benefits to a defined benefit pension scheme.
- They'll automatically rejoin TPS if they move to another employer who offers it and remains eligible for membership.
- You'll need to consider what type of workplace pension is right for your teaching staff. Feedback from your consultations will provide insight into what they value in a pension, for example affordability, responsible investment, a range of retirement options.

### What are the advantages?

- ✓ You'll set the employer and employee contribution rates subject to statutory minimum. This gives you the option to pay the same contribution rate you were paying into the TPS before the increase.
- ✓ You'll benefit from long term cost savings and the security of knowing you control the rate of employer contributions subject to statutory minimums.
- ✓ If you wish, your new workplace pension scheme can be open to both teaching and non-teaching staff at no extra cost. This means you have the option to operate one scheme only.
- ✓ All of your teachers are treated consistently. They'll have access to the same pension benefits with no impact to their salary, minimising any risk of employment equality disputes.
- ✓ Employee contributions can be deducted on a relief at source basis, or salary exchange. This means there's potential for NIC savings and tax relief savings for employees who earn less than the Personal Allowance.
- ✓ Your employees can benefit from flexible retirement options, giving them the option to take one or more cash lump sums, a regular income with a drawdown facility or a secure income with an annuity.

### What are the disadvantages?

- ✗ A consultation period and contractual changes will normally be required. You may incur legal advice costs in relation to the latter.
- ✗ If you speak to a financial adviser about your options, they may charge you for any advice or services they provide.
- ✗ If you choose to recruit employees from the public or private sector they'll no longer be able to build up benefits in TPS. This may put your school at a disadvantage in the recruitment market, particularly when competing against a school that offers access to TPS.
- ✗ The value of your employees' pension benefits at retirement are likely to be lower than the those they'd receive by staying in TPS.

# Option 3

Stay in TPS. Ask teachers to fund the increase by taking a pay cut and offer an alternative workplace pension.

## If you choose this option

- All of your existing and future eligible teachers will have access to TPS.
- Future employees will automatically be enrolled in the TPS scheme. They can choose to opt out and join the new workplace pension scheme or opt out altogether.
- You'll need to consider providing employer funded advice or guidance for each individual teacher, so that they understand the most appropriate option for them.
- Those who choose to stay in TPS will continue to build up their pension benefits in TPS, unless they opt out.
- The benefits of teachers who opt out of the TPS will be deferred until retirement, unless they re-join with another employer or transfer their benefits to another defined benefit pension scheme.
- Teachers who opt out of TPS can choose to enter the alternative workplace pension scheme.
- If you have teachers who stay in the TPS, you'll pay the pre-increase contribution rate and your teachers will be required to agree to a pay cut. This will be equal to the difference between the pre-increase employer contribution rate and the current employer contribution rate.
- Teachers who opt out of TPS will automatically rejoin TPS if they move to another employer who offers it and remains eligible for membership.
- If you offer access to the TPS plus an alternative workplace pension scheme, teachers must retain the right to opt in and out of TPS at any time.

## Option 3 (continued)

### What are the advantages?

- ✓ Your teachers have the flexibility to choose either pension scheme.
- ✓ You can choose to have your new workplace pension scheme open to both teaching and non-teaching staff at no extra cost.
- ✓ Although teachers who stay in TPS will have to agree to a pay cut, they'll benefit from having continued access to TPS.
- ✓ You'll set the employer and employee contribution rates for your new pension scheme, subject to the statutory minimum. This gives you the option to pay the same contribution rate paid into the TPS before the increase.
- ✓ Employee contributions to the alternative workplace pension scheme can be deducted on a relief at source basis, or salary exchange. This means there's potential for NIC savings and tax relief savings for employees who earn less than the Personal Allowance.
- ✓ Continuing to offer access to TPS could be an advantage in the recruitment market.

### What are the disadvantages?

- ✗ Teachers are faced with the difficult decision of choosing between staying in TPS in exchange for a pay cut or leaving the scheme and opting into an alternative workplace pension scheme.
- ✗ TPS may not be a viable option for those who can't afford to reduce their take home pay.
- ✗ A consultation period and contractual changes will normally be required. You may incur legal advice costs in relation to the latter.
- ✗ The government will continue to set the future employer and employee contribution rates and increases to the TPS.
- ✗ Contractual changes should detail if your employees will cover the cost of future employer contribution increases.
- ✗ You may incur costs for any financial advice you take to help you choose the best alternative workplace pension scheme for your teachers.
- ✗ If you offer access to the TPS on a conditional basis there are potential employment, equality and tax laws. This is a complex solution and you'll need to consider if your school has the resources to implement it.
- ✗ You'll have to administer two pension schemes for teaching staff alone, plus any additional schemes you have for non teaching staff.
- ✗ You'll have increased administrative costs.
- ✗ If you have some employees in the TPS who are on a reduced salary, and others in an alternative scheme, you have a two-tier workforce.
- ✗ Where teachers choose to stay in TPS and agree to a pay cut, future build up of benefits in TPS will reduce in line with the reduction in salary.

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