Pencils down, pensions up?

Pensions Age takes a closer look at the recent changes to the Teachers' Pension Scheme, and whether more changes could be on the horizon

The Teachers' Pension Scheme (TPS) saw further changes last month (April), as regulations laid in parliament in March 2025 officially came into force.

The amendments were primarily related to the need to adjust the member contribution tiers and to implement HM Treasury's policy of extending the Fair Deal provisions to Further Education colleges.

The government announced that it was pushing ahead with the planned changes after its consultation found that 48.6 per cent of respondents agreed that the amendments to the regulations deliver the policy objectives as set out in the consultation document.

There were some concerns raised, however, as the government revealed that several respondents expressed concerns about the adjustment of the member contribution rates, citing the financial impact in particular.

In addition to this, a large proportion of the individual respondents commented on the impact of the increased rates on member affordability, with several suggesting that it is unfair that higher earners pay a higher percentage in monthly contributions.

As a result, some respondents also raised concerns about the impact the adjustment of the member contribution rates will have on the number of members opting out of the scheme.

There have been some changes to the draft regulations though, as the government confirmed that while the initial draft regulations would have meant that the provision relating to Fair Deal colleges was to come into effect from 1 April 2025, this has been amended in the final regulations to apply the policy retrospectively from 14 November 2024.

In addition to this, two further institutions have been added to the Fair Deal amendments to ensure that all relevant further education establishments that are eligible to participate in the TPS are brought in line with that new policy.

But these rising costs are impacting the scheme's numbers, as a recent a freedom of information request from Foster Denovo revealed that the number of private schools in the Teachers' Pension Scheme has fallen below 1,000 for the first time.

According to Department of Education figures obtained under the request, 676 schools remain in the TPS as of 30 January 2025, compared to 1,086 when Foster Denovo made the same request in June 2024. There are just under 2,500 independent schools in the UK.

The figures suggest that 312 private schools have left the scheme since September 2019, with a further 268 opting for what's known as 'phased withdrawal' – or closing TPS membership to new employees – since that time.

A further four schools say they intend to leave and another four, having left the TPS in 2021, rejoined in 2022 in order to sign up for phased withdrawal.

Foster Denovo suggested that increasing contribution rates could be a "critical factor" in this trend, pointing out that they have climbed 75 per cent in the past six years to 29 per cent in England and Wales and 26 per cent in Scotland.

And the increased cost of funding these pensions is not improving teacher retention or satisfaction either, as a report from the Education Policy Institute (EPI) found that teachers generally prioritise immediate salary increases over retirement benefits, with some willing to miss out on as much as 20 per cent of their retirement income in favour of a 10 per cent salary boost.

Younger teachers, particularly those in their 20s, were two-thirds more likely to trade pension for salary than teachers in their 50s, as almost one in five (19 per cent) of teachers in their 20s would prefer a compensation package with a 10 per cent salary increase, even if it meant switching to a DC pension and losing 20 per cent of their retirement income, compared to 11 per cent of teachers in their 50s.

The survey also found that teachers value a 10 per cent increase in their retirement income only as much as a 6.3 per cent increase in their current salary, meaning that salary increases are 1.6 times as valuable as pension increases.

In addition to this, teachers who are financially struggling are a quarter more likely to want to trade pension entitlement for salary than teachers who are financially comfortable.

Despite this, the research found that teachers strongly prefer a guaranteed retirement income, such as the one provided by the TPS, over income dependent on stock market performance, revealing that 22 per cent are less likely to choose a pay package tied to stock market performance over one that guarantees their retirement income.

In fact, the survey found that teachers are willing to give up 10 per cent of their salary to keep that retirement security.

Given these findings, the report urged the government to allow schools to offer broader pension options, noting that while currently, all teachers in state-funded schools are automatically enrolled in the TPS, a 'substantial minority' of teachers prefer to trade some retirement income for current salary.

It also urged the government to investigate the possibility of providing flexibility within TPS, suggesting that the government should review the TPS with recruitment and retention in mind.

"It may be that, as with schemes such as the civil service pension scheme, there is room to offer more flexibility within the TPS and make teaching a more attractive profession to more people," the EPI stated.

However, Barnett Waddingham partner, Martin Willis, argued that while evolution is required, "it needn't be revolution and there are many needs and views that need to be considered".

"It's clear and unsurprising that TPS is incredibly valued by the majority – not just the quality of pension provision but the guarantees provided," he continued.

He also warned that while greater choice could bring benefits in terms of flexibility, it does also come with complications.

Some funding support has been seen, however, as the Scottish Funding Council recently confirmed that it will provide additional funding for universities to support the change to the Scottish Teachers' Pension Scheme (STPS) employer contribution rates for the period April 2024 to March 2025.

Although the additional employer pension costs for the STPS pension rose from 23 per cent to 26 per cent from April 2024, the Scottish government agreed to provide additional funding of £5.83 million for the university sector, with payments to be made in full to universities in February 2025.

The University and College Union (UCU) welcomed the announcement, especially the fact that the announcement recognised that the additional costs borne by universities fell most heavily on the modern, post-92, institutions.

However, UCU general secretary, Jo Grady, argued that "Labour now needs to look to Scotland and bring in additional funding to protect staff pensions in post-92 universities across the rest of the United Kingdom".

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