Hutchesons' Grammar School

# Pensions Briefing

Scotland's largest education trade union

**The School plans to withdraw from the Scottish Teachers Pension Scheme, administered by the Scottish Public Pensions Agency – which is a defined benefit scheme**

**Instead, the School proposes a Defined Contribution scheme. These schemes invest your and your employer's contributions. The proceeds are used to create a "pension pot" that may be used at retirement.**

**The Scheme proposed would allow for the employer and employee contributions to be less. The planned pension scheme is private and inherently includes more risk than the STPS which is statutory, and is underwritten by the UK Government and provides pensions and life assurance for the overwhelming majority of teachers in Scotland.**

## HGS Pension Mythbusting

| ***What the School has said:*** | **The Reality** |
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| Significantly, you will note that the new pension will not cost the School less as the new employer pension and benefits contribution rate (23.8%) is slightly above the STPS contribution rate of 23%.<br><br>"Work by actuaries engaged by various independent school organisations… are already indicating that employers i.e. this school's contribution rate will increase beyond the current 23%, with some indications that it could go to 30 or even above." | The School wishes to cap its pension contributions at 23% (although one of its papers states 22%), as it expects STPS employers' costs to rise above 23% in the future.<br><br>Whilst the School is saying its future pensions costs will be (slightly) above STPS costs, the reality is that it expects its new pension costs to be less than the STPS in the future i.e. it is saving money.<br><br>The School has argued that the reduction to the SCAPE[1] discount rate will apply an upward pressure to employer contribution rates. However, the discount rate is just one factor in the scheme valuation, and other assumptions can be expected to impact in the opposite way. For example, to be blunt, an increase in excessive numbers of deaths.<br><br>It is the case that the Scottish Governments does not fund any increase in employer contributions within the independent school sector, because it is not the employer. Recently, it has not fully funded such increases in the public sector either. |
| Giving the teachers the flexibility to choose their own contribution rates, whether the same, more, or less than under the STPS. This benefit is not available under the current STPS which has seen considerable increases to the employee contribution rate over the past ten years with no additional benefit to our teachers. | Teachers can effectively vary their contribution rates within STPS – by purchasing additional service or STPS flexibilities. Teachers may also opt out of the STPS.<br><br>If the School thought its scheme was so good it could have offered it as an alternative to STPS as we understand some other schools do. |

[1] SCAPE stands for Superannuation Contributions Adjusted for Past Experience. It is the process for setting employer contribution rates at valuations of unfunded public service pension schemes.

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| Increasing the teachers' take-home salary, with the introduction of a salary exchange option, which the Governors hope will be welcomed at the current time when the cost of living is rising. | The School has stated that Royal London will provide its new private pension scheme. Details on its "Salary Exchange" may be found here.<br><br>https://employer.royallondon.com/globalassets/docs/employer/misc/l14p10019-employee-leaflet-take-home-pay-increased.pdf<br><br>It is possible to use salary exchange to marginally increase take-home pay by varying tax and national insurance rates.<br><br>The School would "welcome" this because "salary exchange" schemes mean the employers pay less employer National Insurance Contributions. In other words, it saves the School money too! |
| Allowing teachers more flexibility and more control over their pension and an earlier retirement age, should they wish. This is an improvement on the STPS. | https://pensions.gov.scot/teachers/retirement/planning-retirement/types-retirement states:<br><br>"Providing that you are over the age of 55, and your employer agrees to pay the costs for you to retire on premature grounds, this would allow your pension to be paid in full before the scheme's normal pension age. "<br><br>STPS members can also do phased retirement from 55.<br><br>Private pension schemes are usually locked in until you reach age 55 (increasing to age 57 from 2028). |
| The introduction of up to three years' income protection cover in the event a teacher is unable to work for an extended period of time. This benefit is not available under the STPS. | The School could easily arrange "income protection cover" to complement the STPS for medium term illnesses.<br><br>STPS ill-health pension gives guaranteed income (index linked) for life if you are permanently unfit to work; not just for three years as is the case with the new pension scheme. This in-service ill-health pension includes an entitlement to added years enhancement for teachers with serious medical conditions, which is not available for an out-of-service ill-health pension.<br><br>The STPS also provides a guaranteed income for life for partners and children's pensions until they leave full time education. |
| Allowing a teacher's remaining pension pot to be paid into their estate when they die, a benefit unavailable under the current pension and therefore an improvement on the STPS. | The "remaining pension pot" may be paid into the estate and then the teacher's partner would use the "remaining pension pot" until it runs out.<br><br>With the STPS, the qualifying legal partner gets a fixed percentage of the pension for life – it never runs out - and children up to the age of 23. This is not based on your "remaining pot". |

## What the School is not Telling You:

| ***What the School has not addressed:*** | **Rationale** |
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| The amount of pension paid to you by the School's planned defined contribution pension will almost certainly be less than that provided by your current pension provider – STPS. | The STPS defined benefit Career Average Scheme may be less generous than previous teachers' pensions, but it will almost certainly be more generous that the planned School pension. |
| Could I run out of private pension pot before I die? | Yes. The Royal London, the School's planned pension provider, offers four main options (including a mix thereof) when you reach retirement age:<br><br>1. "Secure Income"- Buy a life-time annuity = a regular income for life<br>2. "Flexible access" (e.g. drawdown)<br>3. "Cash payment"<br>4. "Leave it for Now<br><br>If you take out all the funds via options 2 or 3, then you will have nothing left. |
| After I die, could my pension pot run out before my legal partner dies? | Yes. The clue is in the School's own literature, "Allowing a teacher's remaining pension pot to be paid into their estate…"<br><br>If you have taken money or have a non-joint annuity there may be nothing remaining in your pension pot.<br><br>This problem does not affect the STPS scheme. |
| You actually don't know what your private defined contribution pension pot is until you retire. | Given the volatility of the stock market and investments, you may not know how much your pension pot is actually worth until your retirement date. At that point, if you do decide to buy an annuity, the amount you'd receive as a guaranteed income for life is dependent on the annuity rates available at the time. This makes detailed financial planning difficult.<br><br>With a defined benefit pension, you will know exactly what pension you will have at whatever age you retire at – **because the STPS pension is guaranteed by the UK Government.** |
| Your private defined contribution pension pot will be "invested" by Royal London. The value of investments can go up or go down. | If the stock market crashes – e.g. another financial crisis - then the value of your pension pot also crashes.<br><br>It is possible, especially for teachers approaching pension age, that the amount of money paid out of an accrued private pension pot is less than the contributions put in. |

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| Royal London will make a profit on your private defined contribution pension pot – whether the value of your investment goes up or down. | Your new pension will generate a profit for Royal London and save the School some cash if the STPS employer rate goes up as it believes.<br><br>The value of your pension will almost certainly be less than the value of the STPS pensions paid in other independent schools in Scotland. |
| You are more likely to be “scammed” or lose your private pension pot than with the STPS. | The STPS only allows you to “commute” 25% of your final pension as a cash lump sum – the rest you take as a monthly pension.<br><br>Private pension pots allow you to take out the entire amount as a cash lump sum. This makes you prey for scammers and those selling “attractive investments” because you can access your pension pot. This may sound rude – but when you are older you may be more susceptible to being scammed.<br><br>www.citizensadvice.org.uk/debt-and-money/pensions/nearing-retirement/what-you-can-do-with-your-pension-pot/ |
| Where’s the ill-health premature retirement option in the School’s proposed pension plan? | There isn’t one in the scheme the School’s planning for you. |
| If I buy an annuity – will its value increase with inflation every year as the STPS pension does? | In general, lifetime, index-linked, joint partner annuities that mirror the STPS pension are expensive and pay at a lower rate.<br><br>www.ageuk.org.uk/information-advice/money-legal/pensions/annuities/ |
| In transferring from a defined benefit pension to a defined contribution pension the School is transferring the “risk” from itself to you as the employee. | Members bear the investment risk in defined contribution schemes and personal pensions. Generally, employers bear the risk in funded defined benefit schemes. |
| HGS cannot vary its employer contribution rate whilst in the STPS.<br><br>Once HGS sets up a “defined contribution” scheme, it can vary its contribution rates – i.e. further worsen members’ pensions | If an employer leaves the STPS, the legal minimum they have to pay towards the teacher’s pension is 3% of their pay.<br><br>The School may decide in the future the worsen the private pension deal it is currently offering staff – it cannot do so if it stays within the STPS. |
| The School is doing this because it can and wants to | The School has made the calculation that the potential financial savings of changing pension provisions are worth the price of a disaffected staffroom – i.e. the benefits to it are greater than the cost.<br><br>The EIS believes the School has underestimated and undervalued its staff. |

# Vote Now

# Post your Ballot Paper Today!

**The fact that you have “agreed” to the new contract does not bar you from taking industrial action in order to persuade the school to keep the STPS pension scheme.**

**Protect you and your partner’s pension – Safeguard your retirement!**

**Any questions – contact EIS Area Officer, Sarah Collins**
**SCollins@eis.org.uk**

**No matter how the school management dress up this pension offer it is not better than the STPS. This move is purely to save the school money. A reminder, the benefits of the STPS are:**

- **a guaranteed, index-linked, pension for life when you retire**
- **almost certainly a more generous pension than the GoHET defined contribution pension**
- **access to a tax-free lump sum at retirement**
- **entitlement to an ill-health pension at any age should you become permanently unable to work**
- **benefits for your legal partner and dependants when you die**
- **the option to pay extra contributions for additional pension benefits**
- **the option to transfer credits from other pension schemes to increase your benefits in your teachers’ pension scheme**
- **the possibility to transfer accrued benefits out to another scheme should you leave teaching in the future.**

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