Independent schools briefing, August 2025
Outlook for the latest TPS valuation

Independent schools have seen costs soar in recent years for a variety of reasons. For many, this has led to difficult decisions around cost reduction, investment cuts and prioritising spending.

One major contributor has been the cost of the Teachers' Pension Scheme (TPS), which has increased by nearly 75% since 2019. Over the past six years, around 700 independent schools have either exited the TPS or closed it to new teachers.

This briefing explores what the 31 March 2024 TPS valuation may indicate, and whether employer TPS costs may rise or fall in April 2027.

TPS cost increases over the past decade

The table below highlights the sharp rise in TPS costs for schools, particularly since summer 2019:

Effective date	Employer contribution rate
January 2007	14.10%
September 2015	16.48%
September 2019	23.68%
April 2024	28.68%

The main driver of these increases is the reduction in the SCAPE (Superannuation Contributions Adjusted for Past Experience) discount rate, used to discount future benefit payments to the valuation date. It is typically the most sensitive assumption in any pension scheme valuation.

The **lower the discount rate**, the higher the present value of future benefit payments – and the **higher the TPS cost**.

Since 2011, the SCAPE discount rate has been linked to long-term forecasts of UK economic growth. As these forecasts have declined, so has the discount rate.

Could the Government change this approach? Yes, although this feels unlikely. A consultation during the 2020 valuation proposed changes, but the existing method was retained.

The McCloud judgement remedy (see our Q1 2021 briefing) also added costs which are now embedded in the TPS.

While recent trends suggest TPS costs may continue to rise, there are plausible arguments that suggest this may not be the case.

Could contributions change for teachers?

Since the last round of TPS reform was introduced in April 2015, the targeted average teacher contribution rate has been 9.6%, though the tiered structure means some teachers pay more and others less.

As noted in our January 2025 briefing, most teacher contribution rates increased in April; however, this change was not directly driven by the recent rises in TPS costs.

We currently expect the 9.6% average to remain unchanged in the near term, although governments can always seek to revise it.

What assumptions determine TPS costs?

The last two valuations used a mix of HM Treasury-set assumptions and scheme-specific assumptions. The critical SCAPE discount rate is set centrally.

Assumptions fall into two categories:

- **Financial** – e.g. discount rate; salary growth; deficit recovery period.
- **Demographic** – e.g. life expectancy; retirement age; ill-health retirement rates.

During the 2024 valuation, HM Treasury will publish 'valuation directions', which will likely include the crucial SCAPE discount rate.

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What's next for the SCAPE discount rate?

The Office for Budget Responsibility (OBR) provides long-term UK economic growth forecasts, which feed directly into the SCAPE discount rate – unless the Government changes its approach.

While recent UK GDP growth has been modest, patchy or poor (delete as appropriate), it's the long-term forecast that matters most in this context.

Encouragingly, the Government has expressed a clear intent to stimulate growth through policy. Whether this convinces the OBR remains to be seen.

The 2020 valuation report from the Government Actuary's Department showed how sensitive TPS costs are to the discount rate:

- A 0.25% pa lower discount rate would have pushed costs for schools above 35% of pay.
- On the other hand, a higher discount rate would have served to reduce costs for schools.

And what about future life expectancy?

Future mortality improvements are another key assumption, also set centrally by HM Treasury in previous valuations.

These are based on population projections from the Office for National Statistics (ONS), which influence life expectancy assumptions for public service schemes.

In the last two valuation cycles, slower-than-expected improvements in life expectancy helped reduce TPS costs.

Recent data shows life expectancy is lower for both males and females, except older females, making the overall impact uncertain.

New projections may emerge before the 2024 valuation concludes.

Do schools leaving TPS affect costs for those remaining?

Yes – but the impact is hard to quantify.

Over 10% of the 28.68% employer contribution rate is allocated to a notional funding deficit. Fewer employers paying this means a greater share for those remaining.

However, independent schools are a minority across all TPS employers. Even with full or phased exits, the overall impact is likely modest.

The effect is also mitigated by the 15-year deficit recovery period, as per HM Treasury's valuation directions.

Can we confidently estimate future TPS costs?

In short, no. Predicting the April 2027 contribution rate would be speculative. Without clear long-term GDP forecasts, any estimate is uncertain.

At the risk of being cynical, we should perhaps note that public service pension costs can be used as a tool for political means. Due to possible political influence, new TPS costs are not purely mechanical outcomes.

At this stage, we cannot confidently predict the direction of TPS costs for schools from April 2027 onwards.

The uncertainty – and lack of control over a significant cost – continues to be a significant challenge for schools when trying to plan ahead.

If there are improved views of long-term economic growth combined with lower-than-expected life expectancy, then TPS costs are likely to fall. With the Government actively pushing for stronger growth forecasts, this outcome is a distinct possibility. However, policy decisions and alternative assumptions can influence costs in either direction.

The economic forecasts released with this autumn's Budget may hint at the future direction. It would be sensible for schools to prepare for potential changes in TPS costs, whether up or down.

Get in touch

First Actuarial is a leading adviser to independent schools. We understand that pension strategy is not one-size-fits-all. Each school is unique, with its own culture, values, cost base, financial position, and investment plans.

Developing an effective pension strategy to secure a positive future for a school and its staff requires care.

To discuss pension training, strategy, scheme selection and communications, please contact Dale Walmsley (07361 361312) or any of our specialist team for independent schools.

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