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TPS contributions: Early signs of a potential reduction?

The cost of the Teachers' Pension Scheme (TPS) is under review, with the next scheduled employer contribution change due in April 2027.

Although the new TPS employer rate is unlikely to be announced until late 2026, early signs are emerging. Recent long-term GDP forecasts from the Office for Budget Responsibility (OBR) point to an increase in the SCAPE discount rate – the single biggest driver of TPS employer costs in recent valuation cycles.

On balance, if these trends continue, the TPS employer rate is likely to **fall** in April 2027.

This briefing explores why a reduction is possible and what independent schools should be doing now to prepare.

Pressure on employment costs

Employment costs are the largest line in most schools' budgets. In recent years, they've faced additional pressure from:

- Higher employer National Insurance costs
- Pay awards in the state sector feeding through to independent schools
- Pension costs – with TPS employer rates rising sharply since 2019, as shown below.

Effective date	Employer contribution rate
September 2015	16.48%
September 2019	23.68%
April 2024	28.68%
April 2027	*Next scheduled change*

Since 2019, the TPS employer rate has increased by almost 75%. For local authority-maintained schools and academies, grant mechanisms have largely cushioned these increases. Independent schools, however, have not been insulated, prompting difficult strategic choices.

Why TPS costs rose

Pension valuations estimate the size and timing of future benefits using financial and demographic assumptions. Those future payments are then converted to a present value using a *discount rate* – which can be thought of as an advance allowance for expected long-term investment returns.

A lower discount rate means more money must be set aside today, making pension costs more expensive. Even relatively small movements in the discount rate can have a big impact on contributions.

For unfunded public service schemes such as the TPS, the discount rate is the SCAPE rate – which is linked to long-term UK GDP growth, as forecast by the OBR.

As long-term GDP forecasts fell over the past decade, the SCAPE rate also fell. This has been the principal driver of higher TPS employer contribution rates, outweighing the impact of other valuation assumptions.

Outlook for the SCAPE discount rate

The current SCAPE methodology of using the GDP approach was introduced in 2011, and reviewed, as scheduled, ten years later during the last completed valuation cycle. This framework remains in place unless HM Treasury directs otherwise.

While recent headline GDP growth has been modest, it's the long-term GDP forecasts that determine the SCAPE rate. The OBR's long-term projections (published July 2025) show a material improvement compared with those underpinning the current 28.68% TPS employer rate.

If this improved outlook persists, it would increase the SCAPE discount rate – and all else being equal, it would reduce the TPS employer rate from April 2027, assuming HM Treasury maintains the current SCAPE approach without modification.

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Will TPS employer costs definitely fall?

Not necessarily. Other valuation assumptions matter too, including salary growth, inflation, longevity and scheme member behaviour.

HM Treasury will issue *valuation directions* (methodology and assumptions) and the Government Actuary's Department (GAD) will use these to determine the new TPS employer rate. This formal process provides the framework for a consistent approach across all public service schemes.

In its last valuation report, GAD indicated that a 0.25% pa increase in the SCAPE rate would reduce the TPS employer rate by around 7% of pay. Recent long-term OBR forecasts improved by more than this, suggesting meaningful downward pressure on costs if other assumptions remain broadly stable.

On balance, stronger long-term GDP assumptions – and a higher SCAPE rate – should lead to a fall in the TPS employer rate from April 2027.

Ultimately, the outcome is not guaranteed until the directions and valuation results are finalised.

Public service pension sustainability

As the TPS is an unfunded, pay-as-you-go scheme, sustainability can be monitored by comparing money in – from employees and employers (effectively taxpayers) – with money out (benefit payments). This measure is not the only indicator, but it provides a useful snapshot of short-term financial balance.

Recent OBR figures showed a small cashflow deficit in 2024/25, forecast to improve slightly in the current year, rising to a surplus of around £5bn by 2030/31, influenced by public sector pay awards and headcount increases.

There is also the long-term commitment to paying decades' worth of pensions already built up.

Current legislation includes stabilisers such as a cost cap mechanism, and the normal pension age rising with the State Pension age. A 25-year guarantee protects many scheme design features until 2040.

The framework aims to manage risk. Major structural changes to a valued part of public sector remuneration would require significant political will.

For independent schools, the broader sustainability of the system provides context, but the immediate impact remains driven by the current valuation and the new TPS employer rate from April 2027.

What can independent schools do now

The challenges for independent schools in the TPS remain – costs are high and future costs are uncertain. Even if TPS employer rates fall in 2027, schools should continue with disciplined planning.

Keep planning flexible: Continue sensible financial governance through scenario planning, budget stress testing, and clear documentation of pension-related decisions.

Review your TPS strategy: Options are unchanged – including continuing the TPS for all teaching staff, closing to new joiners, closing to all, and even reopening.

Schools that left the TPS often relied on the resulting cost savings to remain viable. If earlier consultation materials indicated TPS costs would always rise, then a potential fall may warrant careful positioning and staff communications.

Check hybrid arrangements: Schools that offer a hybrid option (TPS + DC) should review how a lower TPS employer rate would impact their cost-sharing approach. Some models may have been introduced with only rising TPS costs in mind.

Optimise other pension and benefit spend: Away from the TPS, there remain opportunities to improve value for money, such as:

- Maximising salary sacrifice efficiency
- Consolidating DC providers
- Reviewing DC investment performance
- Reviewing contribution levels for support staff.

Informed decision-making is essential. Regular pension strategy reviews, supported by specialist training, help governing bodies make confident, transparent, and well-evidenced decisions in the best interests of the school and its staff.

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

To discuss pension training, strategy, scheme design, scheme selection, staff communications, and employee benefits please contact Dale Walmsley or any of our specialist team for independent schools.