



Funding Strategy Statement

Approved by the Pensions Committee on

... March 2026



This Funding Strategy Statement has been prepared by Shropshire Council (the Administering Authority) to set out the funding strategy for the Shropshire County Pension Fund (“the Fund”), in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended) and guidance issued by the Scheme Advisory Board in 2025.



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The information enclosed in this statement and the accompanying policies have a financial and operational impact on all participating employers in the Shropshire County Pension Fund. It is imperative that all existing and potential employers are aware of the details set out herein.



Guide to the Funding Strategy Statement (FSS) and Policies

The key sections of the FSS, as required by overarching guidance and Regulations are as follows:

[Purpose of the Fund and the FSS](#)

[Key funding principles](#)

[Employer events](#)

This document also sets out the Fund's detailed policies in the following key areas. Please contact us pensions@shropshire.gov.uk for any queries relating to the FSS or Fund policies below.

Demographic Assumptions (Appendix A)

Details of the demographic assumptions used for assessing the funding position and contribution requirements for the Fund and individual employers, are set out [here](#).

Deficit Recovery Plans (Appendix B)

The key principles when considering deficit recovery plans as part of the valuation are set out [here](#).

Surplus Policy (Appendix C)

The key principles when considering how any surplus identified as part of the valuation is used, including the impact on employer contribution rates, is set out [here](#).

New Employer Admission Policy (Appendix D)

Various types of employers are permitted to join the LGPS under certain circumstances. The conditions upon which their entry to the Fund is based and the approach taken is set out [here](#).

Termination Policy (Appendix E)

When an employer ceases to participate within the Fund, it becomes an exiting employer under the Regulations. The Fund's approach in such cases is set out [here](#).



Inter-Valuation Contributions Review (Appendix F)

In line with the Regulations, the Administering Authority has the discretion to review employer contributions between valuations in prescribed circumstances. The Fund's policy on how the Administering Authority will exercise its discretion is set out [here](#).

Employer Risk Management Policy (Appendix G)

The Fund operates a separate policy to address the risks related to employers who do not have direct or indirect taxpayer backing. Further details on the policy are set out [here](#).

Covenant Assessment and Monitoring Policy (Appendix H)

Details on how employer covenant is assessed, monitored and impacts the funding / termination approach are set out [here](#).

Notifiable Events Framework (Appendix I)

This policy sets out events which employers should proactively inform the Fund about. More details are set out [here](#).

Ill Health Captive Arrangement (Appendix J)

The Fund has implemented a captive insurance arrangement which pools the risks associated with ill health retirement costs for smaller employers. More details are set out [here](#).

Asset Share Policy (Appendix K)

The Fund is not legally sectionalised by employer and so an employer's allocated asset share is calculated on a notional basis. The Fund's approach to calculating this is set out [here](#).

Roles and responsibilities of key parties (Appendix L)

The efficient and effective management of the Fund can only be achieved if all parties exercise their statutory duties and responsibilities conscientiously and diligently. The key parties and their roles for the purposes of the FSS are set out [here](#).

Glossary (Appendix M)

A glossary of the key terms used throughout the FSS and Fund policies is available [here](#).



Section A: Purpose of the Fund and the FSS

Aim and Objectives of the FSS

Ensuring that the Shropshire County Pension Fund (the “Fund”) has sufficient assets to meet its pension liabilities in the long-term is the fiduciary responsibility of the Administering Authority (Shropshire Council). The Funding Strategy adopted by the Fund is critical in achieving this. The Administering Authority has taken advice from the Actuary in preparing this Statement.

The purpose of this FSS is to set out a clear and transparent funding strategy regarding how each Fund employer’s pension liabilities are to be met.

Given this, and in accordance with governing legislation, all interested parties connected with the Fund have been consulted and given the opportunity to comment prior to this FSS being finalised and adopted. This statement takes into consideration all comments and feedback received and has been agreed by the Pensions Committee. As the landscape changes, the Fund will continue to develop and evolve the strategy to ensure it continues to reflect its risk appetite and feedback from employers, where this can be accommodated.

Integrated risk managed strategy

The funding strategy set out in this document has been developed alongside the Fund’s investment strategy on an integrated basis taking into account the overall financial and demographic risks inherent in the Fund to meet the objective for all employers over different periods.

The funding strategy includes appropriate margins to allow for the possibility of adverse events (e.g. material reduction in investment returns, economic downturn and higher inflation outlook) leading to a worsening of the funding position which would result in greater volatility of contribution rates at future valuations if these margins were not included.

This prudence is required by the Regulations and guidance issued by professional bodies and Government agencies to assist the Fund in meeting its primary solvency and long-term cost efficiency objectives. Individual employer results will also have regard to their own circumstances.



The Regulations

The Local Government Pension Scheme Regulations 2013 (“the 2013 Regulations”), the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (“the 2014 Transitional Regulations”) and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (all as amended) (collectively: “the Regulations”) provide the statutory framework from which the Administering Authority is required to prepare a FSS.

This FSS also takes into account the latest version of the guidance issued by MHCLG for preparing and maintaining a Funding Strategy Statement (FSS) dated January 2025.

When formulating the funding strategy, the Administering Authority has taken into account these two key objectives and considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary’s Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the “solvency” of the Fund and “long term cost efficiency” of the Scheme so far as it relates to the Fund.

Long Term Cost Efficiency

Employer contributions are also set in order to achieve long-term cost efficiency. Long-term cost efficiency requires that any funding plan must provide equity between different generations of taxpayers. This means that the contributions must not be set at a level that is likely to give rise to additional costs in the future which fall on later generations of taxpayers or put too high a burden on current taxpayers.

The funding parameters and assumptions (e.g. deficit recovery period) must have regard to this requirement which will underpin the decision-making process. Furthermore, the FSS must have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.



The Solvency Objective

The Administering Authority's long-term objective is for the Fund to achieve and then maintain a 100% solvency level over a reasonable time period. Contributions are set in relation to this objective which means that once 100% solvency is achieved, if assumptions are borne out in practice, there would be sufficient assets to pay all benefits earned up to the valuation date as they fall due.

However, because financial and market conditions/outlook change between valuations, the assumptions used at one valuation may need to be amended at the next in order to meet the Fund's objective. This in turn means that contributions will be subject to change from one valuation to another. This objective translates to an employer specific level when setting individual contribution rates.

The general principle adopted by the Fund is that the assumptions used, taken as a whole, will be chosen with sufficient prudence for this objective to be reasonably achieved in the long term at each valuation.

Purpose of the FSS

Funding is making advance provision to meet the cost of pension and other benefit promises. Decisions taken on the funding approach therefore determine the pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the Administering Authority, acting on the professional advice provided by the Actuary. The purpose of this FSS is therefore:

- To establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward by taking a prudent long-term view of funding those liabilities
- To establish contributions at a level to "secure the solvency of the pension fund" and the "long term cost efficiency"
- To have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible



The intention is for this strategy to be both cohesive and comprehensive for the Fund as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled.

The aims of the fund are to:

- Manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due
- Enable employer contribution rates to be kept at a reasonable and affordable cost to the taxpayers and the employers
- Achieve and maintain solvency and long-term cost efficiency, which should be assessed in light of the profile of the Fund now and in the future due to sector changes
- Maximise the returns from investments within reasonable risk parameters taking into account the above aims

The purpose of the fund is to:

- Receive monies in respect of contributions, transfer values, and investment income, and
- Pay out monies in respect of scheme benefits, transfer values, exit credits, costs, charges, and expenses as defined in the Regulations

Further details of how the Fund looks to measure and manage the solvency, long-term cost efficiency and stability objectives is set out in [Section B](#), which covers the Funding Target, Actuarial Assumptions and the Fund's approach to managing risk.

Monitoring and review of the FSS

A full review of this Statement will occur no less frequently than every 3 years, to coincide with the completion of a full statutory actuarial valuation. Any review will take account of the current economic and demographic outlook and will also reflect any legislative changes.

The Administering Authority will also monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding strategy statement will be reviewed and updated in the interim between valuations.

Examples of when a review of the funding strategy might be appropriate, include:



- Material changes to the scheme benefit structure or regulations (e.g. HM treasury-led) on the advice of the Fund actuary
- If there has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- If there have been significant changes to the investment strategy or if there has been significant market volatility which impacts the FSS or goes beyond the expectations outlined in the existing FSS
- If there have been significant changes to the Fund membership and/or fund maturity profile
- If there have been significant or notable changes to the number, type, or individual circumstances of any employers to such an extent that they impact on the funding strategy (e.g. exit/restructuring/failure which could materially impact cashflow and/or maturity profile and/or covenant)
- If there has been a material change in the affordability of contributions and/or employer(s) financial covenant strength which has an impact on the FSS

Recommendations from MHCLG/GAD

In undertaking such reviews, the Fund will consider the following:

- The implications for the funding strategy and, if significant, determine what action should be taken to revise the FSS
- The implications for meeting the liabilities of individual employers and any amendments required to the Investment Strategy Statement (ISS) and other key fund documents
- Communicating with the individual (or groups) of employers specifically impacted by any changes and specifically any impact on employers on entry or exit from the fund or in response to change in risk.

When monitoring the funding strategy, if the Administering Authority considers that any action is required, the relevant employers will be contacted. This will include any guarantors where the impact of the change has material implications for the amount of liabilities backed by the guarantor or the risk of the guarantee being called upon.



Section B: Key Funding Principles

Funding target

Securing “solvency” and “long term cost efficiency” is a regulatory requirement. To meet these requirements, the Administering Authority’s long term funding objective is for the Fund to achieve and then maintain sufficient assets to cover 100% of projected accrued pension liabilities (the “funding target”) assessed on an ongoing past service basis, including allowance for projected final pay where appropriate. In the long term, an employer’s total contribution rate would ultimately revert to its Primary rate of contribution.

The results of the 2025 valuation show the liabilities to be [TBC]% covered by the assets, with the funding surplus of [TBC]%.

The cost of meeting the future benefits for Fund members is met from a combination of:

- the contributions paid in by employers and members
- the investment returns on those contributions and the existing assets

Employee contributions are specified in the Regulations. Employers must therefore meet the balance of cost that is not met by investment returns. Each employer’s contributions are set at such a level to achieve and maintain long-term cost efficiency and full solvency in a reasonable timeframe.

The Regulations require that an actuarial valuation is completed every three years by the Actuary, including certifying the “primary” rate (for new benefits being accrued) and “secondary” rate (for any deficit/surplus) of employer contribution. As referenced in [Section A](#), one of the key objectives of the Fund is to maintain as nearly constant a primary rate as possible.

The Fund balances contributions and reliance on investment return by:

- Making a long-term prudent assessment of the potential outlook for investment returns
- Taking into consideration employer short and longer-term affordability
- Taking professional advice on these matters from its Fund actuary, investment consultant and where required, covenant adviser



Further details of the approach taken to setting employer contribution rates is in the section on “how Employer contributions are calculated” [below](#).

Managing Risk

Funding risks are considered as part of the Fund’s overarching risk management framework and strategy. This FSS covers those risks specific to the funding strategy of the pension fund or employer covenant and the measures taken to mitigate those risks. Recent developments alongside the management of other risks (including operational risks) are set out in the Fund’s risk register which is reviewed regularly.

In the context of managing various aspects of the Fund’s financial risks, the Administering Authority will also consider investment risk and will consider implementing investment risk management techniques where appropriate.

Identification of risks and countermeasures

The funding of defined benefits is by its nature uncertain. When actual experience is not in line with the assumptions adopted, for example if the investment return is higher or lower than assumed, then a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Administering Authority has been advised by the Actuary that the greatest risk to the funding level is the risk inherent in the investment strategy, so that actual asset out-performance (relative to CPI inflation, to which the majority of benefits are linked) between successive valuations could diverge significantly from that assumed in the long term. The Actuary’s formal valuation report includes a quantification of the key risks in terms of the effect on the funding position.



Financial Risks and Mitigations

The financial risks include the following:

- Economic outlook moves at variance with assumptions
- Investment markets fail to perform in line with expectations
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation are significantly more than anticipated
- An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements

Experience is worse than assumed when assessing the termination liabilities for exiting employers whose liabilities are orphaned in the Fund and are underwritten by all remaining employers. This would lead to additional costs falling on other employers

Mitigations

Any increase in employer contribution rates (as a result of these risks) may in turn impact on the service delivery of that employer and their financial position.

In practice the extent to which these risks can be reduced is limited. However, the Fund's asset allocation is kept under constant review, and the performance of the investment managers is regularly monitored. In addition, the Fund has equity protection in place which limits the Fund's exposure to falls in equity markets (by in turn surrendering some upside potential).

The Fund also takes a prudent approach to ongoing funding with additional protections built in in relation to termination liabilities where these liabilities are orphaned in the Fund – see the termination policy in [Appendix E](#) and employer risk policy in [Appendix G](#).



Demographic Risks and Mitigations

The demographic risks are as follows:

- Future changes in life expectancy (longevity) that cannot be predicted with any certainty. Increasing longevity is something which government policies, both national and local, are designed to promote. It does, however, potentially result in a greater liability for pension funds
- Potential strains from ill health retirements, over and above what is allowed for in the valuation assumptions for employers
- Potential strains from early retirements for reasons of redundancy and efficiency result in an immediate and unfunded increase in liabilities
- Unanticipated acceleration of the maturing of the Fund (e.g. due to further cuts in workforce and/or restrictions on new employees accessing the Fund) resulting in materially negative cashflows and shortening of liability durations

Mitigations

To minimise these risks, the Fund Actuary undertakes a detailed demographic analysis of the Fund's experience on at least a triennial basis, alongside consideration of national trends and future projection scenarios to inform the Fund's view of an appropriate assumption for life expectancy and other demographic factors.

The Fund operates an ill health captive ([Appendix J](#)) that is designed to manage the risk of ill-health retirement costs for smaller employers where such costs can be particularly significant.

The Fund considers the maturity profile at least triennially as part of the valuation and undertakes the investment strategy review alongside the valuation to ensure an integrated approach for funding and investment risks including cashflow requirements.

Governance and Employer Risks and Mitigations

Governance and employer risks are as follows:

- The quality of membership data supplied by the employer is inaccurate or incomplete or there is a breakdown in processes for updating the information, each of which would result in liabilities being under or overstated



- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements) with the result that contribution rates are set at too low a level
- Administering Authority not advised of an employer closing to new entrants, something which would normally require an increase in contribution rates
- An employer ceasing to exist with insufficient funding or a bond which is not adequate, leaving remaining employers to fund the benefits
- A material deterioration in employer short-term affordability or longer-term viability

Mitigations

For these risks to be minimised much depends on information being supplied to the Administering Authority by the employing bodies. The Fund has a Notifiable Events policy (within [Appendix I](#)) which sets out the information and events that need to be notified to the Fund. Arrangements are strictly controlled and monitored but in most cases the employer, rather than the Fund as a whole, bears the risk.

The Fund's employer risk policy ([Appendix G](#)) considers the risk of exits with insufficient funding from employers without another guarantor in the Fund. The policy also covers the review of the covenant of employers deemed to pose a higher level of risk, so that action can be taken for significant changes in affordability/viability.

Regulatory Risks and Mitigations

The key regulatory risks are as follows:

- Changes to Regulations, e.g. changes to the benefits package, retirement age, potential new entrants to the Scheme
- Changes to national pension requirements and/or HMRC Rules
- Political risk that the guarantee from the Department for Education for Academies and Further Education bodies is removed or modified along with the operational risks as a consequence of the potential for a large increase in the number of academies in the Fund due to Government policy
- Uncertainty about the Government's policy with regard to Higher Education bodies, with the result that the Fund is unsure about the security within which



these bodies operate and may therefore be taking undue risk when setting contribution rates

Mitigations

Membership of the Local Government Pension Scheme is open to all local government staff and should be encouraged as a valuable part of the contract of employment. However, increasing membership does result in higher employer monetary costs.

The Fund is not able to control policy/regulatory developments however it routinely monitors emerging issues and developments in the sector and actively contributes to consultations in key areas that impact the Fund.

Climate Change

An important part of the risk analysis underpinning the funding strategy will be for the Actuary to identify the impact of climate change transition risk (shorter term) and physical risks (longer term) on the potential funding outcomes. Climate change is a systemic risk meaning it can impact on funding, investment and employer covenant – all at once. Therefore, the Fund keeps the management and governance of climate risk under review.

The impact of climate risk cannot be measured with certainty. For the current valuation the Fund has considered different climate change scenarios at the Whole Fund level relative to the baseline position, assuming that the funding assumptions are played out on a best estimate basis. The projections are meant to illustrate the different elements of risk under four climate change scenarios based on the current strategic allocation. The scenarios are not meant to be predictors of what may happen and are only a small subset of a very wide range of scenarios that could arise depending on the global actions taken in relation to climate change.

In the context of funding strategy considerations, the information on climate risk is used by the Fund in two key areas:

1. Considering the adequacy of the prudence margins required in the actuarial assumptions, to mitigate against material downside events. The prudence in the funding strategy is predominantly reflected in the valuation discount rate



2. The surplus reserve retained in the fund, above which surplus may be run down by means of employer contribution reductions

The Fund also has a separate policy on responsible investment and notes that climate risk has the potential to adversely impact on employer resilience and therefore ability to fund pension benefits in the future.

The Fund recognises that as climate risk is inherently uncertain, it is necessary to apply judgement and an integrated approach across funding, investment and covenant risk to mitigate.

When considering funding issues related to climate change, the Fund also gives regard to the key funding principles document for preparing climate scenario analysis approved by GAD, MHCLG and SAB.

The analysis considers a projection of the funding levels under the scenarios considered which are designed to illustrate the transition and physical risks over different periods depending on what actions are taken globally on climate change.

The key metrics are the relative impact on the funding level over the different time periods as this illustrates the impact of climate related market shocks on the funding plan. Whilst these scenarios are only four out of a considerable range of potential outcomes, it shows that climate change can have far reaching effects on the fund.

The Actuary applies a nuanced approach to understand what is/is not priced into the markets in terms of transition and physical risks. They include assumptions about what is currently priced into markets, and later price in shocks when the markets account for future impacts (both physical and transition impacts). The four climate shock scenarios considered are:

1. **Rapid Transition** – there is a highly ambitious low carbon policy and rapid technology transition. Sudden divestments in 2026 to align with the Paris Agreement goals have disruptive effects on financial markets with sudden repricing followed by stranded assets and a sentiment shock. Average temperature increase is assumed to stabilise at 1.6°C from 2050 onwards.

Fund impact: Under this scenario there is a significant (c10%) reduction in the Fund's funding level in 2026 compared to a "baseline" projection, as markets absorb and reflect



the transition costs. However, physical risks are limited under this scenario, and by 2037 the funding level moves above the long-term baseline (remaining there thereafter).

2. **Delayed Transition** Limited additional action until 2030, at which point a highly ambitious set of low-carbon policies is introduced. Financial markets price in transition and physical risk in 2030 to align with the ambitious policy change, associated with stranded assets and a sentiment shock. Assumed temperature increase of 1.9°C by 2100.

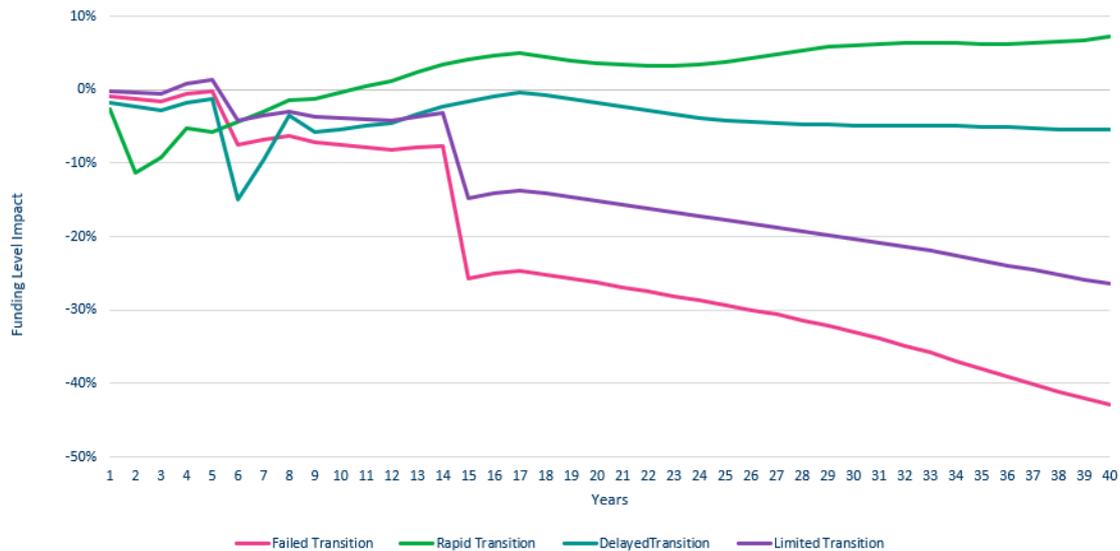
Fund impact: Initially there is little to no impact on the funding position until 2030, when market pricing reduces the funding level by c15%. A recovery swiftly follows where the bulk of this fall is reversed, but the funding level never fully recovers to baseline levels (for the period to 2065)

3. **Limited transition** Emissions targets and commitments are not fully met. Financial markets price in climate-related risks in 2030 and 2039 as the scale of future risks become more widely accepted and understood. Assumed temperature increase of 2.9°C by 2100.

Fund impact: A small correction (c5%) in 2030 is followed by a much larger fall in 2039 when the funding level drops to almost 15% below the baseline projection. The position gradually deteriorates from there, and by 2065 the position is c25% below the baseline. Under this scenario the more challenging economic conditions could also lead to a reduction in the ability of employers to support the Fund.

4. **Failed Transition** - No new climate policies are enacted, but transition progresses on economic grounds. Financial markets price in climate-related risks in 2030 and 2039 as the scale of future risks become more widely accepted and understood. Assumed temperature increase of 3.7°C by 2100.

Fund impact: Here the pattern is similar to the limited transition but with bigger impacts – a 5%-10% funding level “gap” by 2030, 25% by 2039 and over 40% by 2065. There may also be significant strain on employer affordability / covenant, reducing the employer’s ability to support ongoing benefit costs and pay additional contributions if required.



The actuarial assumptions (versus the best estimate) include a level of prudence aiming to protect against (but is not guaranteed to fully mitigate) adverse experience in the future, which may be, for example, as a result of climate risk. This is in line with the objective for future contribution stability and the Administering Authority has concluded that the level of prudence is currently sufficient recognising that this also must be balanced against employer affordability. However, any climate related impacts will potentially put significant stress on the funding plan, especially if this occurs at the same time as other advice events and so needs to be monitored over time.

Main Actuarial Assumptions and Actuarial Method

The assumptions used to calculate the funding target, and contributions are set out below. Underlying these assumptions are the following two tenets:

- That the Fund is expected to continue for the foreseeable future
- Favourable investment performance can play a valuable role in achieving adequate funding over the longer term

This allows the Fund to take a longer-term view when assessing the contribution requirements for certain employers.

Financial Assumptions

The key whole Fund assumptions used for calculating the funding target and the cost of future accrual for the 2025 actuarial valuation are set out below.



Financial Assumptions	2025 valuation assumption		Description
Investment return / discount rate	Standard Approach	5.6% p.a. (past) and 5.1% p.a. (future)	Standard approach: Derived from expected returns on Fund assets based on the long-term strategy set out in the ISS, including appropriate prudence margins. At 2025 this is based on assumed returns of 3.0% p.a. above CPI (past service) and 2.5% p.a. above CPI (future service)
	Lower risk approach (see Appendix G)	5.35% p.a. (past) and 5.1% p.a. future	<p>Lower risk approach: As above but with 0.25% p.a. reduction in past service discount rate. Applies to non-taxpayer-backed employers who elect not to provide a bond (where the Administering Authority deems one is necessary).</p> <p>Where warranted by an employer's circumstances, the Administering Authority retains the discretion to apply a discount rate based on a lower risk investment strategy for that employer to protect the Fund as a whole.</p> <p>This real return will be reviewed from time to time based on the investment strategy, market outlook, and the Fund's overall risk metrics.</p>
Inflation (Retail Prices Index)	3.3% p.a.		The investment market's expectation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date (reflecting the profile and duration of the whole Fund's accrued liabilities).



Inflation (Consumer Prices Index)	2.6% p.a. (includes an adjustment of 0.7% p.a.)	<p>RPI inflation (above) reduced to reflect the expected long-term difference between RPI and CPI (reflecting the profile and duration of the Fund's accrued liabilities and 2030 RPI reform), adjusted to remove the estimated impact of supply/demand distortions as well as Bank of England forecasts.</p> <p>The adjustment to RPI will be reviewed from time to time to take into account any market factors which affect estimated CPI inflation.</p>
Salary increases	3.85% p.a.	Pre-1 April 2014 benefits (and 2014 to 2022 McCloud underpin) – the assumption is determined by an allowance of 1.25% p.a. above CPI as described above. This includes allowance for promotional increases.
Pension Increases and Deferred Revaluation	Assumed to be in line with the CPI inflation assumption above (noting that pension increases cannot be negative as pensions cannot be reduced). At the 2025 valuation, an adjustment has been made to the liabilities to allow for the known inflation for the period September 2024 to March 2025, and where material, allowance will continue to be made for inflation as it emerges when assessing funding positions between valuations.	
Indexation of CARE benefits	Assumed to be in line with the CPI inflation assumption above (noting that for active members indexation of CARE benefits can be less than zero).	
McCloud	A reasonable estimate for the potential cost of McCloud has been included within the 2025 valuation results for each employer. This has been calculated based on the actual data provided for the 2025 valuation and in line with national guidance.	
Expenses	General expenses are met out of the Fund, in accordance with the Regulations. This is allowed for by adding 1.0% of pensionable pay to the contributions from participating employers. This is reassessed at	



	each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.
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Demographic Assumptions

The derivation of the demographic assumptions is set out in separate advice supplied by the Actuary.

The mortality in retirement assumptions reflect the most up-to-date information published by the Continuous Mortality Investigation (CMI), with loadings to reflect Fund specific experience, and an allowance for future improvements in longevity.

As an indication of impact, we have set out the life expectancies at age 65 based on the 2025 assumptions:

Membership Category	Male Life Expectancy at 65 (2025 assumptions)	Female Life Expectancy at 65 (2025 assumptions)
Pensioners	21.5	24.1
Actives aged 45 now	22.8	25.6
Deferreds aged 45 now	21.9	25.0

For example, a male pensioner, currently aged 65, would be expected to live to age 86.5. Whereas a male active member aged 45 would be expected to live until age 87.8. The difference reflects the expected increase in life expectancy over the next 20 years in the assumptions above.

The mortality before retirement has also been reviewed based on LGPS wide experience.

The detailed assumptions adopted are set out in [Appendix A](#).

Actuarial Method

The actuarial method to be used in the calculation of the solvency funding target is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the scheme on the basis that the overall age profile of the active membership will remain stable. (See the section on setting employer contributions [below](#) variations to this for “closed” employers).



The assumptions to be used in the calculation of the funding target are set out above.

Underlying these assumptions are the following two tenets:

- That the Fund is expected to continue for the foreseeable future
- Favourable investment performance can play a valuable role in achieving adequate funding over the longer term

This allows the Fund to take a longer-term view when assessing the contribution requirements for certain employers.

There will be a funding plan for each employer. These rates are assessed taking into account the experience and circumstances of each employer (or group), following a general principle of no cross-subsidy between the distinct employers in the Fund.

Employer Pooling and Risk Sharing Arrangements

Generally individual employers will be responsible for their own liabilities and have a notional asset share allocated to them. However, there are some circumstances where a different approach may be taken (see [Appendix D](#)):

- Multi-Academy Trusts (MATs) can opt to be pooled (i.e. treated as a single employer) for funding purposes, rather than each employer being treated as a separate employer
- For admitted bodies, there will be some instances where the admitted body and the letting employer enter into a “pass-through” arrangement, where some/all of the pension risks are retained by the letting employer. In these cases, the admitted body is usually pooled with the letting authority and typically pays the authority’s primary contribution rate with no secondary contributions, although the exact approach will depend on the admission agreement in place.

In all cases, the attribution of pension risk in such arrangements may impact how any termination / bond assessments are undertaken (where applicable) and therefore it’s important for Employers to make the Fund aware of the risk sharing arrangements in place when undertaking such exercises.



Employer Asset Shares

The Fund is a multi-employer scheme that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation. This means it is necessary to make some approximations in the timing of cashflows and allocation of investment returns (in line with the appropriate investment strategy) as calculated by the Actuary based on relevant financial information, when deriving the employer asset share.

In attributing the overall investment performance obtained on the assets of the Fund to each employer, a pro-rata principle is adopted. This involves applying the investment strategy to each employer, unless this is varied by agreement between the employer and the Fund, at the sole discretion of the Administering Authority.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation. In addition, the asset shares may be restated for changes in data or other policies.

Adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund.

Links to the Investment Strategy Statement (ISS) and Investment Policy

The investment and funding strategies are closely linked. After employer and employee contributions, investment returns are the third key pillar of LGPS funding. The Fund must be able to pay benefits when they are due – those payments are met from a combination of contributions (through the funding strategy) and asset returns and income (through the investment strategy).

If investment returns or income are lower than expected, the Fund may need to set higher contributions from employers to ensure benefits can be paid. Therefore, the investment returns required by the funding strategy, as set out in this FSS, must be compatible with the investment policy as set out in the ISS.

In formulating a Fund's overall investment strategy, the liability profile and funding position in relation to the liabilities of the Fund as a whole (assessed on an appropriate and prudent



basis), is taken into account, alongside the Fund’s overall risk appetite across funding, investment and covenant.

The overall strategic asset allocation for the Fund as a whole is set out in the Investment Strategy Statement (ISS), which can be found [here](#). The current strategy is included below:

Asset class	Allocation (%)	Control ranges
Equities*	55.0	50.0-60.0
Private equity	7.5	3.5-11.5
Infrastructure	7.5	3.5-11.5
Illiquid credit	7.5	3.5-11.5
Property	5.0	3.0-7.0
Absolute return	7.5	5.5-9.5
Investment grade corporate bonds	10.0	8.0-12.0

* The fund has implemented an equity derivatives programme with Legal & General Investment Management in order to manage the SCPF's exposure to equity markets over the short to medium term.

How Employer Contributions are Calculated

At each valuation employer contributions are assessed in line with the principles, assumptions and policies in this document, based on the employer’s own membership and position in the Fund.

The approach for setting contributions at each valuation is below. However, the Administering Authority retains ultimate discretion in applying this approach and may vary this where it is deemed necessary. The Administering Authority will engage with the employer directly in such circumstances.

Primary Rate of Employer Contribution

Primary contributions are contributions in respect of new benefits being accrued. The primary rate is calculated using the same assumptions as the funding target other than the discount rate (where the “future” rate noted [above](#) is applied).

The Regulations state the desirability of keeping the primary rate (also referred to as the “future service” rate) as stable as possible. Also, primary contributions are paid in respect of benefits built up in future, and as such are not linked to current market conditions (in the



same way that the funding target is). It is for these reasons that a different discount rate (from that used to calculate the funding target) is used.

Primary contribution rates will vary between employers due to:

- Member profile (age, gender, etc). In particular, primary rates tend to be higher for older members (as their contributions are invested for a shorter period and so are expected to earn less returns)
- Whether the employer is open or closed to new entrants. Open rates are calculate using the Projected Unit method which broadly assumes the age profile will remain unchanged. Closed rates use the Attained Age method, which assumes the age profile will increase. As a result, employers who move from open to closed would normally see an increase in primary rate
- Whether the employer has (direct or indirect) taxpayer backing – employers without taxpayer backing may have more prudent assumptions applied and if so, they would have a higher rate. For such employers' further adjustments to the funding approach may apply depending on their covenant. See the Fund's employer risk policy for details [Appendix G](#)
- Whether the employer is in the ill-health captive. Primary contributions for employers in the captive includes the captive premium (based on the expected cost for the captive as a whole) – see [Appendix J](#). For employer's not in the captive, an allowance for ill-health based on their own member profile is included

The primary contributions include an allowance for the administration costs of the Fund.

The primary rate for the whole Fund is the weighted average (by payroll) of the individual employers' primary rates.

Secondary Rate of the Employers' Contribution

Secondary contributions are contributions in respect of any deficit or recoverable surplus in the funding position. The secondary rate is calculated using the same assumptions as the funding target (including any variations by employer status and covenant – see [Appendix G](#)).



Deficit Recovery Plans – Key Principles

If the funding level of an employer is below 100% (i.e. the assets of the employer are less than the liabilities), a deficit recovery plan needs to be implemented so that additional secondary contributions are paid into the Fund to meet the shortfall.

It is the Fund's objective that any deficit is eliminated as quickly as the participating employers can reasonably afford given other competing cost pressures, based on the Administering Authority's view of the employer's covenant and risk to the Fund.

Deficit contributions paid to the Fund by each employer will be expressed as cash amounts (flat or increasing year on year).

The Fund's policy on setting the deficit recovery plan is [Appendix B](#).

Surplus Run Off Plans– Key Principles

The Fund applies a sustainability reserve for employers in surplus, meaning that an element of surplus is retained in the Fund, allocated to an individual employer's asset share, to increase contribution stability for that employer, as the reserve can be used to absorb the impact of negative experience in future and limit the need for contribution increases.

Any surplus after these elements are applied will be used to apply a reduction to the primary contribution rate – i.e. negative secondary contributions – to run-off that element of surplus over a suitable time horizon.

Surplus off sets will usually be expressed as a % of pensionable salary deduction to the primary contribution rate.

The Fund's policy on use of surplus is [Appendix C](#).

Payment of contributions – employer options

The following options may be made available at the discretion of the Administering Authority:

- Employers facing an increase in total contributions may be allowed to phase in increases so that the target rate is paid in year three. This is achieved by an adjustment to the secondary contributions.



- Employers may have the option of prepaying contributions as a single lump sum, either annually or triennially, in return for a reduction. The reduction will reflect the assumed rate of investment returns (determined using the past service discount rate). The total amount paid in each year must be in line with the certified contribution rates (meaning top up payments may be required).
- Prepayment of employee contributions is not permitted

Payment of Additional Contributions

There may be circumstances when Employers are required to make other payments to the Fund in respect of member benefits, for example:

- To fund awards of additional pension
- Strain costs arising from retirement before normal retirement age on unreduced benefits

The Fund's default position is that such costs are funded by an immediate contribution from the employer. Employers can request an estimate of the potential costs of any such awards from the Fund.

Conflicts of Interest

Where an actual, or perceived, conflict of interest is identified in relation to the setting of employer contribution rates (whether primary or secondary), the Administering Authority will follow the Fund's conflicts of interest policy.

Where necessary, for example where an actual, or perceived, conflict emerges when setting contribution outcomes for the Administering Authority itself as a Scheme Employer, the Administering Authority will ensure a separation of decision making to manage any conflict. Any such decisions would be subject to the approval of the Pensions Committee and subject to the scrutiny and oversight of the Local Pensions Board.

Actuarial Valuation

As required by the Regulations (Regulation 62 of the LGPS Regulations 2013), the Fund must obtain an actuarial valuation as at 31 March every 3 years. The effective date of the most recent actuarial valuation is 31 March 2025. In addition, the FSS must be formerly renewed every 3 years and in advance of the completion of the valuation (which must be



within 12 months of the valuation effective date) or such later date as the Secretary of State may agree.

As part of the valuation, the Fund must obtain a report (the “actuarial valuation report”) and a rates and adjustments certificate prepared by an actuary. This certificate sets out the employer contribution rates for the following 3 years (i.e. for 3 years from 1 April 2026 until 31 March 2029 in respect of the 31 March 2025 valuation).

As the accuracy of the valuation calculations and resulting contributions is reliant on the accuracy of the membership data used, employers have a critical role in this process ensuring that the employee information provided to the Fund is as accurate as possible.

The rates and adjustment certificate is appended to the valuation report, but otherwise information in the report is aggregated at the whole Fund level.

The actuarial valuation report:

- Shows the aggregate funding position for the Fund as a whole as compared with the previous valuation
- Sets out a summary of the key reasons for the change in funding position and a summary of key inter-valuation experience
- Includes sensitivity analysis and commentary to support understanding of the key risks
- Summarises the key financial and demographic assumptions alongside the underlying membership and investment data as at the valuation date
- Includes a primary and secondary contribution rate for the Fund as a whole, equal to the pay weighted average rates for percentage of pay contributions, and the total amount for cash adjustments.
- Includes information required by the Government Actuary’s Department for the purpose of undertaking its Section 13 assessment
- Included information for the Fund as a whole (and certain employer groups) in relation to the Gender Pension Gap

Review of Employer Contributions Between Valuations

The Regulations permit Administering Authorities to review an Employer’s contribution rate in the interim period between triennial actuarial valuations where there has been a significant change to the liabilities or covenant of that employer.



The Fund's policy on undertaking an interim review of contributions is set out in [Appendix F](#).

Fund Approach to Managing Surpluses and Deficits

The funding position of each LGPS fund is different: some have surpluses, some have deficits, and funds can shift between the two, depending on the circumstances and experience of each fund.

The position of individual employers will also differ and change over time, and these differences can be material. Usually, any deficit or surplus above the sustainability reserve will be recovered / run-off over a period of time. This has the effect of smoothing contributions required to finance a potentially volatile funding position.

Employers also face different affordability challenges and pose risks to a differing degree to the Fund. Some participate in the Fund long-term while others may exit soon. For this reason, the Fund's approach for recovering deficits / surpluses differs depending on the type of employer and their circumstances.

Details on how the Fund determines the approach for making good deficits and running-down surpluses are given in the contribution sections above.

Employer Covenant

Covenant is the employer's legal obligation and financial ability to meet their obligations to the Fund. The covenant of certain employers is assessed to understand their current strength and how it could change in future. This assists the Fund in deciding the appropriate level of risk when setting the investment strategy, employer funding targets and contributions. Therefore, a sound understanding of the covenant of employers is an essential part of the integrated approach to risk management of the Fund.

Employer covenant can be subject to substantial variation over relatively short periods, so regular monitoring and assessment may be undertaken. The relevant employers' covenants will be assessed and monitored objectively in a proportionate manner and the results considered when determining an individual employer's funding strategy.

The Fund has established a proportionate covenant assessment and monitoring framework which is set out in [Appendix H](#).



This includes the Fund's notifiable events framework ([Appendix I](#)) which specifies the types of event or changes in circumstances that employers will be obliged to notify the Fund about. This is necessary as timely reporting to the Fund of events that have the potential to materially impact on employer covenant strength is critical to the management and monitoring of employer covenant risk.

A significant change in covenant may trigger a review of contributions, as set out in the inter-valuation review policy [Appendix F](#).

Guarantors

Certain employers in the Fund will be guaranteed by another entity. For example, new admission bodies joining the Fund must be guaranteed by a Scheme employer, and the Department for Education provides a 'guarantee of the exit debt' in respect of academy trusts and further education bodies.

There are two common types of guarantee:

- Full guarantee – the guarantor fully indemnifies the Fund in respect of the employer. Once the employer exits, the guarantor 'subsumes' their liabilities and residual assets (after any termination payment/exit credit is made)
- 'Guarantee of the exit debt' – the guarantor agrees to cover only the exit debt if there is one but does not subsume the exiting employer's assets and liabilities on termination. Instead, the assets and liabilities are "orphaned – i.e. become the responsibility of the Fund as a whole

The existence and type of guarantee is an important consideration for the risk profile of the employer. As a result, it is taken into account in the funding strategy in a number of ways.

- The approach to covenant review – employers with a taxpayer guarantee are generally not subject to covenant monitoring
- The funding assumptions and so contributions payable – employers without a taxpayer guarantee may see higher contributions (see [Appendix G](#) – employer risk policy)
- The assumptions used to assess any deficit / surplus on termination – employers without a full guarantee see additional prudence is in their termination assessment, to protect the ongoing employers as they would underwrite the termination liabilities going forward (see [Appendix E](#) – termination policy)



- Whether a bond or other security is required to support the admission – this is typically applied on admission (see [Appendix D](#) – admission policy)

Admission bodies

Under the LGPS regulations, an administering authority must assess the risk a proposed new admission body poses to the Fund should the admission body become insolvent or go out of business.

After considering the level of risk, the administering authority may decide that the admission body must provide security, such as a guarantee from the letting employer, an indemnity, or a bond. This security must cover some or all the:

- Strain costs of any early retirements if employees are made redundant when a contract ends prematurely
- Allowance for the risk of assets performing less well than expected
- Allowance for the risk of liabilities being greater than expected
- Allowance for the possible non-payment of employer and member contributions
- Admission body's existing deficit

Further information on this is set out in [Section C](#) of this FSS and the Fund's approach to such risk management when an admitted body joins the Fund is set out in [Appendix D](#).

Pension Administration Strategy

The Fund keeps a separate pension administration strategy which outlines the responsibilities, performance and procedures for employers and the Fund. Compliance with the Fund's pension administration strategy, in particular areas such as communication, skills and training and data accuracy is essential for ensuring employers are in a position to understand and manage their pension costs and risks in a changing economic, demographic and legislative landscape alongside ensuring assessment of such costs and risks can be as accurate as possible. Failure to adhere to these requirements could have a material effect on an employer's liabilities in the Fund.

Alongside the triennial actuarial valuation, there will be a number of occasions where the Actuary will use updated membership data to carry out its calculations, as referenced in the next section e.g. terminations (where an exit debt/credit is to be assessed in full), inter-



valuation contribution rate reviews, new admissions, bulk transfers, and in some cases accounting calculations where a significant event has occurred during the accounting period. To ensure membership data is as accurate as possible, the Fund undertakes annual data quality assessments (including against requirements set out by The Pensions Regulator) and instructs the Actuary to undertake independent inter-valuation data quality assessments.

The Fund's Administration Strategy Statement is available [here](#).

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Section C: Employer events

Section B set out the Fund's general policies, including the approach to the actuarial valuation and certifying of employer ongoing contributions.

However, key events during an employer's participation in the Fund could impact on their and the Fund's funding circumstances. The Fund's approach to policy and process for dealing with any possible outcomes from those events is summarised below. The Fund's detailed policy in each of these areas is included in the relevant Appendix referenced.

Joining the Fund

All Scheme Employers (defined under Schedule 2 Part 1 of the LGPS 2013 Regulations) are entitled to join the Fund. This includes tax raising bodies, those funded by central government (academies and colleges) and universities (reliant on non-government income). Other Scheme Employers (Schedule 2 Part 2 of the Regulations) can designate eligibility to join the Scheme for individuals or groups, where they pass a resolution to that effect. Additionally, other employers may be allowed to join the Funds – most typically “admitted bodies” (Schedule 2 Part 3 of the Regulations).

The high-level principles and considerations for new employers on joining the Fund are set out below. The full details of the approach are contained within the admission policy [Appendix D](#).

Initial Funding Calculations

Typically, there are two main approaches used to set the initial funding position for new employers depending on their specific circumstances:

- Fully funded: the value of the existing Fund liabilities of the transferring group of members is assessed and assets are notionally reallocated from the original employer to the new employer body equal to this amount – meaning no initial surplus or deficit
- Partially funded: the assets notionally reallocated are less than or more than the value of the liabilities transferring. The method of assessment for this initial deficit or surplus can vary depending on the specifics of each case



Depending on the employer type and circumstances, there may be a provisional assessment of the funding position on admission. The position is formally assessed at the next actuarial valuation.

Bespoke commercial arrangements for which the above are not applicable can also be entered, between the new entity and the letting authority, and must be communicated to the Fund. In particular, a “pass-through” arrangement where some/all the risk is retained by the letting authority and so a separate funding position may not be assessed.

Initial Contribution Rate Assessment

An initial contribution rate will be set to apply until the next actuarial valuation when the contributions are formally reassessed. This will take account of:

- The type of employer, with some having detailed calculations based on their membership, and others having a simplified approach applied
- Whether the new body will be open, or closed to new entrants
- Whether any funding deficit or surplus is ultimately transferred and the impact on contributions.

LEA Schools Converting to Academy Status

The Fund's policy regarding the treatment of schools when converting to academy status is for the new academy to inherit the school's appropriate share of the historic local authority deficit or surplus prior to its conversion. This is in accordance with the Department for Education (DfE) guidance issued when the Academy conversion programme was extended to cover all schools. This would be reflected in their secondary contributions.

Multi Academy Trusts (MATs)

New Employers Joining MATs

MATS are groups of academies managed and operated by one proprietor. The employer of non-teaching staff in academies is the proprietor of the Academy Trust and not the individual academy within the Trust. It is therefore the proprietor who is the MAT that is legally responsible for staff across all schools in the pool.



Where numerous academies are operated by the same managing Trust, the initial position is to treat each academy as a separate employer, with their own funding position / contribution rates. In this case, new academies joining a MAT would also have their own funding position / contribution rate.

However, the Fund does allow MATs to combine (“pool”). In this case any new academy would initially pay the pooled MAT primary rate plus a secondary rate reflecting their initial deficit / surplus. At the next valuation the new academy would then be combined into the pooled MAT.

Existing Standalone Academies Joining Pooled MATS

Where an existing standalone academy joins a pooled MAT, the transferring academy’s assets and liabilities would be subsumed by the MAT. They would continue to pay their current primary and secondary rate. At the next valuation the new academy would then be combined into the pooled MAT.

Academies Leaving a Pooled MAT / Moving Between Pooled MATs

Where an academy leaves a pooled MATs, the liabilities will move across along with a share of the transferring MAT’s deficit / surplus. The value of the deficit / surplus will be based on the transferring MAT’s secondary contributions, assessed in line with the approach for allocating surplus / deficit to newly converted academies (see [Appendix D](#)).

Where the academy is joining a new pooled MAT, they will normally pay the new MAT’s primary contribution rate and continue to pay the same secondary contribution rate that they were paying prior to transfer. However, the Administering Authority may adopt a different approach where individual circumstances warrant this. At the next valuation the new academy would then be combined into the new MAT.

Preparing for Exit and Events Which May Trigger Termination

Unless entering a Deferred Debt Agreement (see below), an employer ceases to participate in the Fund when the last active member leaves the Fund or when a suspension notice ends. The employer then becomes an “exiting employer” under the Regulations. In this situation the Fund is required to obtain an actuarial valuation of that employer’s liabilities in respect of the benefits of the exiting employer’s current and former employees, along with a



termination contribution certificate setting out whether an exit payment is due to the Fund or a credit is payable to the employer.

The high-level principles and considerations for exiting employers are set out below. The details of the calculation of the exit position are contained within the admission policy [Appendix E](#).

Payment of Exit Payments and Exit Credits

The Fund's policy for settling termination payments/credits is as follows:

- The default position is for exit payments and exit credits to be paid immediately in full once the cessation assessment has been completed by the Actuary (and any determination notice issued by the Fund where applicable).
- At the discretion of the Administering Authority, instalment plans (known as a Debt Spreading Agreement (DSA)) over a defined period may be agreed (when there are clear issues of affordability that risk the ability of the Fund to recover the debt).

Deferred Debt Agreements

In certain limited circumstances an employer may participate in the Fund with no contributing members and utilise a "Deferred Debt Agreements" (DDA) at the sole discretion of the Administering Authority. This will only be considered when there are issues of affordability that risk the financial viability of the employer organisation and the ability of the Fund to recover the debt. Typically, this might be relevant for small 'not for profit' organisations that constitute a potential risk to the Fund because they may cease operations with insufficient residual assets to meet their pension liabilities. A DDA would be at the request of the employer in writing to the Administering Authority.

Suspension Notices

Regulation 64(2A) provides the Administering Authority with the discretion to issue a "suspension notice" and suspend payment of an exit amount for up to three years, where it reasonably believes the exiting employer is likely to take on one or more active member within the period specified in the suspension noted.

Partial Terminations



So-called “partial termination” is where an employer exits the Fund for deferred and pensioner members (and potentially past service benefits for active members) but seeks to remain a participating employer for active members (potentially just in respect of future service benefits). The objective is to remove the funding risk in relation to historic benefits, which would transfer to the Fund as a whole.

The Fund’s default position is that such arrangements are not permitted. The position would be reconsidered only in the event that a) the legal basis for such arrangements is established to the satisfaction of the Fund after taking its own legal advice, and b) it was deemed to be in the best interests of the Fund as a whole (which is not expected to be the case except in very exceptional circumstances).

Bulk Transfers

Bulk transfers involve the transfer of multiple members to or from the Fund. They may be:

- internal (or “intra-fund”) transfers, where the two employers both participate in the Fund
- external to the Fund, where one of the employers participates in a different LGPS Fund
- external to the LGPS, where members are transferring to/from a non-LGPS pension fund

They may involve some of an employer’s members (and so some assets and liabilities) transferring to a new Fund or employer, or the employer’s whole position (and so all assets, liabilities and membership) transferring to or from another LGPS Fund.

General Principles

A summary of the general over-riding principles, processes and responsibilities the Fund will apply for all bulk transfers are set out below.

- The LGPS Regulations provide the framework if a Fund employer has an external bulk transfer of staff and the Fund will adhere to the Regulations
- The Fund’s primary objective will be to minimise the risk to Fund and other Fund employers – particularly where a transfer will result in “orphaned” members/liabilities. Subject to this, where applicable and practical, the Fund will consider other relevant



factors including views of the relevant employer(s) and the circumstances of the transfer

- Generally, there will be no cross-subsidy between the employers participating in the bulk transfer and all other Fund employers. So, for outgoing/incoming transfers, assets and liabilities are deducted from/added to the transferring employer's balance sheet, with no adjustment applied to other employers in the Fund
- It is the employer's responsibility to notify the Fund that a transfer is required and the relevant details. As the assets transferred and potentially the provision of benefits, will be reliant on the data used, it is critical that the data provided is complete and accurate. Neither the Fund nor Fund Actuary will be responsible for errors or issues arising due to the provision of incomplete or inaccurate data
- Once notified, the Fund will facilitate the bulk transfer by liaising with the relevant parties as required
- All Fund costs relating to any bulk transfer will be met by the relevant Fund employer(s)

Intra-Fund Bulk Transfers

The default position is the assets transferred to the new employer will be equal to the value of the liabilities being transfer – i.e. on a “fully funded” basis. Where an employer's commercial requirements require a different treatment, it will be the responsibility of the employers to notify the Fund. The Administering Authority will then consider whether this is possible and appropriate.

The standard approach is that intra-fund bulk transfers are formally assessed at the first triennial valuation following the transfer (or, if timing prevents this, then the first triennial valuation where assessment is possible). However if the transfer is significant, the employers may ask the Actuary to calculate the potential impact on their balance sheet at the point of transfer (e.g. to reflect in inter-valuation accounting figures or for a contribution rate review (see [Appendix F](#) for the Fund's policy on inter-valuation contribution reviews)).

External Bulk Transfers

For external transfers to other LGPS Funds, the assets transferred to/from the Fund will be calculated in line with the underlying LGPS Regulations. This may involve a calculation of Cash Equivalent Transfer Values, or where the number of members transferring is sufficient, the methodology for determining the asset calculation will need to be agreed between the



Fund actuaries (with input from the administering authority, and potentially the relevant Fund employer, as required).

For external transfers outside of the LGPS the assets transferred will be calculated in line with the relevant regulations.

In all bulk transfer cases, where possible the Fund will take a simplified approach in order to manage the costs of the process (which are met by the employers directly involved), provided interests of all employers in the Fund are protected.

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Appendix A: Demographic Assumptions

Further details on the demographic assumptions adopted for the 31 March 2025 valuation are set out below.

Life Expectancy Assumptions

The post-retirement mortality tables adopted for this valuation are set out below:

Current Status	Retirement Type	Mortality Table*
Male Annuitant	Normal health	103% S4PMA CMI 2024 1.5%
Female Annuitant	Normal health	95% S4PFA_M CMI 2024 1.5%
Male Annuitant	Dependant	126% S4PMA CMI 2024 1.5%
Female Annuitant	Dependant	109% S4PFA_M CMI 2024 1.5%
Male Annuitant	Ill health	103% S4IMA CMI 2024 1.5%
Female Annuitant	Ill health	113% S4IFA CMI 2024 1.5%
Male Annuitant	Future dependant	126% S4PMA CMI 2024 1.5%
Female Annuitant	Future dependant	109% S4PFA_M CMI 2024 1.5%
Male Active	Normal health	108% S4PMA CMI 2024 1.5%
Female Active	Normal health	98% S4PFA_M CMI 2024 1.5%
Male Active	Ill health	161% S4IMA CMI 2024 1.5%
Female Active	Ill health	178% S4IFA CMI 2024 1.5%
Male Deferred	All	121% S4PMA CMI 2024 1.5%
Female Deferred	All	107% S4PFA_M CMI 2024 1.5%
Male Active/Deferred	Future dependant	141% S4PMA CMI 2024 1.5%
Female Active/Deferred	Future dependant	144% S4PFA_M CMI 2024 1.5%

**All parameters are "core," with underlying rates, i.e., expressed with the overlay for excess deaths removed*



Other Demographic Assumptions

Pre-Retirement Mortality

Based on wider LGPS experience, the assumption is 75% (male)/65% (female) of the DxL08 table with CMI_2023 1.5% (standard parameters).

Ill-health retirement

Based on the Fund's experience – sample rates below:

Age	Male	Female
25	0.02	0.01
35	0.03	0.02
45	0.07	0.07
55	0.31	0.27

It is assumed 80% of retirements are tier 1, with 10% in each of tier 2 and tier 3.

Withdrawal

Based on wider LGPS experience – sample rates below:

Age	Male	Female
25	20.3	22.4
35	5.1	6.3
45	2.5	3.9
55	0.8	1.2

Commutation

Based on wider LGPS experience, all retiring members assumed to take 75% of the maximum tax-free cash available (at the LGPS standard rate of £12 cash for each £1 p.a. pension given up).



Proportions Married/Civil Partnerships

Based on wider LGPS experience – sample rates below:

Age	Male	Female
25	27	37
35	64	66
45	69	67
55	68	65
65	69	62
75	69	53

Early Retirement

Based on wider LGPS experience, those entitled to receive any part of their benefits before 65 are assumed to retire between 60 and 65 (sample rates below), with all other members assumed to retire at 65:

Age	% retiring per annum
60	10
61	8
62	8
63	8
64	8
65	100

Discretionary Benefits

The costs of any discretion exercised by an employer in order to enhance benefits for a member through the Fund will be subject to additional contributions from the employer as required by the Regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation.



Appendix B: Deficit Recovery Plans

If the funding level of an employer is below 100% at the valuation date (i.e. the assets of the employer are less than the liabilities), a deficit recovery plan needs to be implemented so that additional contributions are paid to meet the shortfall.

It is the Fund’s objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford given other competing cost pressures, based on the Fund’s view of the level of risk.

While this Appendix sets out the default approach, the Fund may apply an alternative approach where individual circumstances warrant this (as determined by the Administering Authority, acting on the advice of the Fund Actuary).

Employer Deficit Recovery Plan – Key Principles

Recovery periods will be set by the Fund on a consistent basis across employer categories where possible. This will determine the minimum contribution requirement, with employers being free to select a shorter recovery period (and so higher contributions) if they wish. Employers will be notified of their individual deficit recovery period as part of the provision of their individual valuation results.

Employer Type	Recovery Period	Derivation
Existing open employers	12-13 years	Reduce by a maximum of 3 years from the previous valuation, subject to a minimum of 12 years
New open employers	12 years	Fixed value
Closed employers	Linked to the expected average future working lifetime of the active membership	
Employers with a limited participation in the Fund (where appropriate)	Determined on a case-by-case basis based on length of expected period of participation in the Fund.	

Deficit contributions paid to the Fund by each employer will be expressed as cash amounts (normally increasing each year in line with assumed pay growth specified in [Section B](#)).

Recovery periods will be set based on the following principles:



Appendix C: Surplus Usage

Key Objectives

The objective of the Fund is to pay out the benefits promised to members but also manage the level of contribution affordability/sustainability for employers. The Fund's key principles for the management and use of surplus are:

- Secure the solvency of the Fund whilst balancing intergenerational fairness for taxpayers by ensuring contributions are as sustainable as possible.
- Take into account the level of reasonably affordable contributions.
- Allow for the level of risk and variability in financial and demographic factors when deciding on the level of surplus to distribute and over what period.
- Allow for the Fund's investment strategy, market outlook and risk management strategy, including long-term systematic risks e.g. climate change.
- Consider the potential impact of differing contributions (including future service contributions) and investment returns on the likelihood of achieving a sustainable contribution outcome for employers.

While this Appendix sets out the default approach, the Fund may apply an alternative approach where individual circumstances warrant this (as determined by the Administering Authority, acting on the advice of the Fund Actuary).

Surplus Usage Approach

The Fund has moved into surplus as a whole at the 2025 valuation. This is a strong funding position which presents a set of unique issues and opportunities to consider. Some employers are significantly in surplus so an approach which allows for an employer's ability to support its liabilities in the long term is important.

This document sets out the Fund's approach to determining how any surplus assets are used when setting contributions for employers.

Sustainability Reserve

At each triennial valuation, the Fund will determine the surplus for each employer (excess assets above the accrued liabilities, as calculated by the Fund Actuary). For the 2025



valuation the Fund will also introduce a “sustainability reserve” for employers, which will be retained in the Fund to protect against adverse experience leading to unsustainable contributions levels.

When considering the level of reserve at each valuation, the Fund and the Actuary will consider the pathway of the funding and future contribution outcomes based on a range of economic and financial scenarios, to “test” the sustainability of the funding strategy over a number of valuation cycles for the Fund as a whole. The Fund will then utilise this analysis as part of its decision making on the level of any reserve.

As well as considering the financial and demographic outlook, the Fund will consider:

- The overall affordability of contributions (including future service contributions) and the impact of any contribution reductions on future covenant strength
- The Fund’s investment strategy
- Whether an employer is likely to exit the Fund in the near future and terminate its participation in the Fund. This may mean nil, or a reduced amount of surplus may be returned to the employer, and the final surplus would be determined on exit and the appropriate exit credit (if any) paid

The approach may vary for individual employers where in the Administering Authority’s view this is warranted, taking into account employer covenant and risk.

When determining employer contributions, only surplus in excess of the reserve will be run-off over time via a reduction to the future service contribution rate (“the contribution off-set”). Note – for employers without taxpayer backing the off-set will also be limited based on any termination surplus if lower (see [Appendix G](#)).

The reserve will be expressed as a percentage of the liabilities. The contribution off-set will usually be expressed as a percentage of pensionable pay for each year of the rates and adjustments certificate. Total contributions (i.e. future service contributions less the surplus off-set) will be subject to a minimum of zero.

For the 2025 valuation, the reserve will be 110% (i.e. only surplus over a funding level of 110% will be distributed as off-sets).



Spreading period

At each triennial valuation the Fund will review and agree the period over which any surplus above the reserve will be returned to employers. For the 2025 valuation the default spreading periods are as follows:

Employer Type	Recovery Period	Derivation
Open employers	15 years	Fixed value
Closed employers	Linked to the expected average future working lifetime of the active membership	
Employers with a limited participation in the Fund (where appropriate)	Determined on a case-by-case basis based on length of expected period of participation in the Fund.	

Employers will be able to adopt a longer period, and this will provide for a higher likelihood that total contributions remain sustainable in the future, with a lower reliance on the Fund's assets to generate surplus to maintain the same level of overall contributions.

The position will be reviewed and may be revised at future valuations, taking account of the factors described above as part of the Fund's overall review of the approach to use of surplus.

Monitoring and fund discretion

The Administering Authority retains ultimate discretion in applying these principles for individual employers on grounds of affordability and covenant strength and it may be deemed necessary to deviate under certain circumstances. This would typically involve a more detailed covenant review and analysis, and employers would be required to adhere to the requirements of the notifiable events policy.



Appendix D: Admission policy for new employers

While this Appendix sets out the default approach, the Fund may apply an alternative approach where individual circumstances warrant this (as determined by the Administering Authority, acting on the advice of the Fund Actuary).

Employer Types

Scheme Employers

All Scheme Employers (defined under Schedule 2 Part 1 of the Regulations) can join the Fund. These include tax raising bodies, those funded by central government (academies and colleges) and universities (reliant on non-government income).

Other Scheme Employers (defined under Schedule 2 Part 2) can designate eligibility to join the scheme for individuals or groups, where they pass a resolution to that effect. A copy of this resolution will be required by the Administering Authority at the outset, and any subsequent amendments to the resolution should also be provided.

Academy conversions

Where a school has elected to convert to Academy status, the Fund's policy is for the new Academy to inherit the school's share of the historic local authority deficit or surplus prior to its conversion. This is in accordance with the Department for Education (DfE) guidance issued when the Academy conversion program was extended to cover all schools. Full details of how this is assessed are set out in a later section of this document, as is the treatment offered to Academies within Multi-Academy Trusts (MATs).



Admission bodies

An admission body is an employer which, if it satisfies certain regulatory criteria, can apply to participate in the Fund. Admission bodies can join the Fund if:

- They provide a service for a scheme employer as a result of an outsourcing (formerly known as Transferee Admission Bodies)
- They provide some form of public service and their funding in most cases derives primarily from local or central government. In reality they take many different forms but essentially, they are “not for profit” organisations (formerly known as Community Admission Bodies).

If its application is accepted, the Fund will then enter into an “admission agreement.” This sets out the conditions of participation for of the admission body, in accordance with the Regulations, including which employees (or categories of employees) are eligible to become members of the Fund.

Any specific arrangements outside the normal regulations agreed between the letting authority and the new entity will be covered in the commercial agreement. This includes but is not limited to cases where pension costs are shared, or indeed fully passed back to the original employer. In particular, it should be agreed at the outset whether any deficit / surplus when the admission ends will be the responsibility of the exiting employer or will revert to the original employer. The Administering Authority must be informed at the outset of any specific arrangements entered. This may result in increased / more detailed requirements when providing member data to the Administering Authority.

Admission bodies with an academy / MAT as guarantor

For academy outsourcings the Fund would normally expect the admission to be a pass-through arrangement (see below), in line with DfE guidance updated December 2024. Where this is not the case, in line with [guidance](#), the academy / MAT would need to contact DfE and confirm that the guarantee still applies and confirm this to the Fund.

Initial funding calculations

When a new employer joins the Fund, there is an initial assessment of their funding position – assets and liabilities. There are two main approaches used depending on the employer’s circumstances:



- Fully funded: The liabilities of the transferring members are assessed. The assets are notionally reallocated from the original employer to the new employer equal to the liability amount, meaning no initial surplus / deficit
- Not fully funded: The assets notionally reallocated are less / more than the transferring liabilities. The method of assessment for this initial deficit can vary depending on the specifics of each case.

The Fund's default policy is that admission bodies join on a pass-through basis (see pass through section below). Where the Administering Authority agrees to allow an alternative approach, the admission body will usually join the Fund on a "fully funded" basis (although there can be exceptions reflecting commercial agreements). The initial funding position for Academies joining the Fund will take account of the funding position of the ceding Council (historically this has meant they were not fully funded at inception, as they took on a share of deficit / surplus), and their treatment is set out in a later section"

This initial assessment is provisional, pending a formal assessment at the next actuarial valuation.

Initial contribution rate

The new employer will have an initial contribution rate assessed. The assessment involves an actuarial calculation of the primary contribution rate, and for partially funded admissions the secondary rate, which applies to the new employer. This assessment will take account of:

- The pay levels of the transferring group (and the employee contribution rate)
- The timing of the benefits that are expected to fall due (depending on any applicable transitional protections for certain members)
- Whether the new body will be open, or closed to new entrants
- Whether the admission is fully funded, and if not the size of the deficit / surplus and the period over which it will be removed
- Whether the admission is a pass-through (see below)



Indemnifying bonds and / or guarantors

Where the Administering Authority judges that the potential pension risk warrants additional security, the Fund may require any admission body (other than for pass-through admissions) to provide an indemnifying bond from an appropriate third party. This bond would be actuarially assessed to the satisfaction of the Administering Authority and kept under regular review.”

Typically, the bond covers any initial funding deficit, plus any potential early retirement strain costs that could arise on the premature (or normal) termination of the body. These would arise on the grounds that on redundancy, certain members could be eligible for immediate payment of benefits on an unreduced basis.

Where a scheme employer within the Fund has formally agreed to guarantee an admission body, the Regulations allow for a bond not to be put in place. The Fund’s primary position on this is that a bond should still be put in place in order to better protect all employees within the Fund (including the guarantor).

The Fund’s view is that the frequency of the review of any bond amount should be:

Guarantee arrangement	Frequency of bond review
Admission body with no guarantor	Annual review with triennial update as standard (see Appendix G for further details)
Admission body with a guarantor	Triennial reassessment (carried out as part of the valuation)

It is recognised that the parties involved may wish to depart from the above default position on commercial grounds, and the Fund would be open to considering alternatives on a case-by-case basis.

Academies are not required to provide a bond. The DfE stands as a guarantor of the exit debt to all academies in the Fund.

Risk assessment

For admitted bodies the Regulations require that an actuarial risk assessment be carried out to the satisfaction of the Administering Authority. This includes assessment of the indemnifying bond above.



Academy deficit / surplus assessment

For new academies, the approach taken will be that a deficit / surplus will be transferred to the new academy.

The Fund's policy is for this transferring deficit / surplus to be calculated as:

- The capitalised amount of deficit funding / surplus offset contributions (based on the local authority recovery period) the school would have made / received had it not converted, plus
- A share of the ceding authority's sustainability reserve (where applicable)

This amount is subject to a limit to ensure that the asset share of the new academy is not less than zero.

This may result in a wide range of funding levels, depending on the profile of the transferring members following the conversion. Transferring groups of older members and/or those with long service will on average have higher liabilities, meaning a funding level closer to the ceding authority's. Employers with lower liabilities may see more extremes in funding level on conversion

Multi Academy Trusts (MATs)

MATs are groups of academies managed and operated by one proprietor. The employer in this case is the proprietor of the MAT and not the individual academy. It is therefore the MAT itself who is the employer for LGPS purposes, making it legally responsible for staff across all schools in the group.

The Fund's initial position is to maintain separate records for each of the constituent academies in a MAT. This means each academy may have varying contribution requirements according to their own circumstances / membership. New academies joining MAT would have their own funding position and contribution requirements assessed separately.

However, the Fund allows MATs a decision to combine. This is a one-off and irrevocable choice made at commencement. If a combined decision is made, for the purposes of the pension fund the MAT (including all constituent academies) will be treated as a single combined employer.



This decision has implications for all future actuarial calculations as the position for a single academy cannot subsequently be identified. So, a single overall funding position and “average” contribution rate would apply to the MAT as a whole (and pension fund accounting under F.02 can only be produced for the overall MAT).

Newly converted academies joining an existing MAT pool would pay primary contributions equal to the MAT’s rate, plus additional secondary contributions based on their initial position calculated in line with the approach outlined above. This would be next reviewed at the next triennial valuation.

Pass through Arrangements Including Pooling

A pass-through arrangement is an agreement between an Admission Body usually a contractor providing services to a Fund Employer and a guarantor Fund Employer such that the guarantor retains some / all the risks associated with the admission.

Contracts between an Admission Body and a guarantor may be a “pass-through” arrangement. There is no single definition of this, but they generally involve:

- The Admission Body being responsible for the agreed regular contributions as a percentage of pay, and certain other pension related costs under their control (e.g. strains due to early retirement on redundancy, or employer granted benefit enhancements)
- All other pension costs / risks being retained by the guarantor. This normally includes any surplus / deficit when the admission agreement ends (other than pension related costs specifically identified)

Other versions of the above are possible, including partial pass-through arrangements, where the Admission Body is responsible for other agreed pension costs.

The pass-through arrangement is an agreement solely between the Admission Body and guarantor – the Fund is not a party to this. However, an Admission agreement is still required between the Fund and the Admission Body.

Where the admission is on a pass-through basis, the two employers will have the option to pool the Admission Body with the guarantor Fund Employer. Whether pooling is appropriate is a decision for the employers, which should be taken based on the exact nature of their agreement and the allocation of risk. When deciding, they should be aware that:



- No separate assets or liabilities for the Admission Body will be identifiable. The Fund will not separately track the position, which would be fully pooled with the guarantor
- As such, the funding position relating to the Admission Body will not be available when the admission ends, and the guarantor will retain responsibility for all assets and liabilities (including any deficit / surplus)

Normally the Admission Body will pay the guarantor's primary contribution rate on an ongoing basis, although other arrangements may be available (at the Administering Authority's discretion). The Fund would expect that the ongoing contribution rate for the Admission Body is agreed as part of the contract, and if it differs to the certified rate then any adjustments will have to be made between the two employers external to the Fund.

The fund's default approach is for pass through admission agreements.

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Appendix E: Termination Policy, Flexibility for Exit Payments and Deferred Debt Agreements

Termination Policy

When an employer's last active member leaves the Fund, under the Regulations the employer becomes an exiting employer ("terminates"). The Fund is then required to obtain an actuarial valuation of that employer's liabilities in respect of the benefits of their current and former members and determine the amount payable to / from the Fund, along with a termination contribution certificate.

The Fund's default policy is that such a valuation will be commissioned for all cases, and a termination contribution certificate will be issued by the Fund Actuary.

This policy differentiates between employers who do and do not have a "guarantor". Here a guarantor is a suitable Scheme Employer guaranteeing to subsume all assets and liabilities on exit (including any deficit / surplus not settled directly by / with the exiting employer).

While this Appendix sets out the default approach, the Fund may apply an alternative approach where individual circumstances warrant this (as determined by the Administering Authority, acting on the advice of the Fund Actuary).

Termination Assumptions

For terminating employers with a guarantor, the termination position will be assessed using the standard funding assumptions described in [Section B](#).

- Otherwise (including where the guarantor is a guarantor of the exit debt), a lower risk approach will apply on termination to reflect the transfer of pension risk from the exiting employer to the Fund as a whole (i.e. the other Fund employers). The current assumptions applying under this lower risk approach are as follows:
- Default discount rate: Based on government bond yields of appropriate duration for the employer with an appropriate margin deducted for additional risks (which may be nil). At 31 March 2025 the margin is 0.15% p.a., and this will be reviewed on a regular basis or if there is a material change in market outlook.
- CPI inflation: RPI implied by government bond yields of appropriate duration, less 0.2% p.a. to reflect the average RPI / CPI gap. No adjustment for an "inflation risk



premium” will be made, reflecting the transfer of inflation risk to the Fund. This adjustment will be kept under review over time.

- Mortality: Standard funding assumptions in [Section B](#), but with a higher long-term improvement rate of 2% p.a. (to provide additional protection against future adverse demographic experience)
- Other demographic assumptions: in line with the standard funding assumptions above

The non-guaranteed (lower risk) financial termination assumptions at the valuation date (31 March 2025) are set out below, based on the fund’s overall profile:

Low-risk termination assumptions	31 March 2025
Discount Rate	5.0% p.a.
CPI	3.1% p.a.
Pension increases/indexation of CARE benefits	3.1% p.a.

All termination assessments (guaranteed and non-guaranteed) will include an estimate for the capitalised value of the future administrative and governance expenses that the Fund is expected to incur when providing the benefits to the relevant members (excluding those who will remain active with another Fund employer).

The final termination assessment will generally take place following the date of exit allowing for market conditions at that point, although the Fund may consider alternatives here in exceptional circumstances.

Treatment of termination deficit / surplus and payment of termination debt / exit credit

The Fund’s policy on the treatment of a deficit or surplus on termination and the resulting payment is also dependent on whether the exiting employer has a guarantor in the Fund. The policy is designed to ensure consistent treatment of surplus and deficit.

a) Termination with no guarantor

Any deficit assessed on termination will be recovered from the exiting employer via the payment of a termination debt. In the case of a surplus, the Fund will determine the exit credit, if any, to be paid to the exiting employer.



b) Termination with a guarantor

The standard position is summarised below.

1. No “risk sharing”

Where there is no “risk sharing” this means the exiting employer is responsible for their final position in the Fund. In these cases, any deficit will be recovered from the exiting employer via the payment of a termination debt. Where there is a surplus, the Fund will determine the exit credit payable after considering all relevant factors, including the contributions paid by the exiting employer, in line with the Regulations. The liabilities and assets (after any termination debt/ exit credit payment) would then be subsumed by the guarantor.

2. “Risk sharing” applies

Where there is “risk sharing”, meaning that the guarantor is responsible for the final position, any assets, liabilities and deficit or surplus would be subsumed by the guarantor.

Where partial risk sharing applies – meaning the exiting employer is responsible for some but not all pension risks – the Fund will consider whether any exit credit is payable based on the relevant risks only.

Risk sharing

Where the employer has a guarantor, the Administering Authority will need to determine both the risk sharing position and where relevant the exit credit payable. In that case they will:

- contact the exiting employer and the guarantor so they can make representations as to the nature of the agreement and any risk sharing. This would include who was responsible for any deficit / surplus, factors to consider when determining the level of any exit credit, and any other factors they consider relevant, all supported by any evidence
- where both sides agree, the termination assessment will be progressed in line with the standard approach
- otherwise, the two parties will be expected to resolve the dispute between themselves, without input from the Fund. The Fund will not become involved in any dispute between the two parties until all other avenues have been explored.



Once the position is resolved then the Fund will determine the value of any deficit / exit credit payable. If it is not resolved within a reasonable period which will be confirmed by the Fund depending on the circumstances of the situation, then the Fund will determine the outcome and will write to both parties to confirm the proposed course of action in terms of what if any exit credit will be payable and to which party. This will reflect all factors deemed relevant by the Administering Authority, having taken suitable advice (legal, actuarial, covenant, as appropriate).

If requested, following a disputed case the Administering Authority will provide details of the information considered, including:

- Details of the employers involved in the process (e.g. the exiting employer and guarantor)
- Details of the admission agreement, commercial contracts and any amendments to the terms that have been made available to the Administering Authority and considered as part of the decision-making process. **The underlying principle will be that if an employer is responsible for a deficit, they will be eligible for any surplus. This is subject to the information provided and any risk sharing arrangements in place**
- The final certification of the exit credit by the Actuary.
- The Administering Authority's determination based on the information provided.
- Details of the appeals process in the event that a party disagrees with the determination and wishes to make representations to the Administering Authority.

The Fund may seek to recover any costs associated with appeals or dispute resolution as part of the final termination settlement.

In the event of parties unreasonably seeking to crystallise the exit credit on termination, the Fund will consider its overall policy and seek to recover termination deficits as opposed to allowing them to be subsumed with no impact on contribution requirements until the next assessment of the contribution requirements for the guarantor.

Pooled MATs / academies

Where an academy in a pooled MAT ceases to exist, the MAT retains responsibility for the payment of the benefits to the academy's former members. As such the residual assets and liabilities will remain with the MAT, and so no termination assessment will be required.



Exit payments

Where a credit is payable to the exiting employer in the case of a surplus, the Fund will hope to be able to pay the exit credit following completion of the termination process within 6 months of cessation, subject to:

- the exiting employer providing sufficient notice to the Fund of their intent to exit; any delays in notification will impact on the payment date
- Any delays due to appeals or disputes arising under the process outlined in the previous section

Managing the exit payment, and alternatives to termination

The default is that any termination payment due by the exiting employer is paid in full following the final assessment. However, the Administering Authority can use its discretion to allow alternative approaches, and these will be considered where this is in the best interest of the Fund. These are:

- Issue a “suspension notice” if the employer is likely to have active members in the near future
- Allow the termination payment to be spread over an agreed period
- To allow the employer to remain in the Fund under a “Deferred Debt Agreement” (DDA)

Any costs associated with these alternative approaches will be borne by the employer (even if they are not subsequently taken forwards). Depending on the employer’s circumstances, these may be required as an upfront payment or included in the contribution plan / exit payment.

(1): Suspension notice

The regulations allow the Fund to issue a “suspension notice” for up to 3 years if, in the reasonable opinion of the Administering Authority, the employer is likely to have one or more active members join the Fund within the period of the notice.

The default policy is that any “suspension notice” would only apply for a maximum of the period to the next triennial valuation. If a suspension notice is applied, any contributions not



related to pay (e.g. lump sum payments as set on the Rates and Adjustments Certificate) will continue to be paid.

(2): Spreading an exit payment

The Administering Authority will use the following process to determine whether an employer is eligible to spread their exit payment:

- Firstly, consider whether it is in the best interests of the Fund to enter into such an arrangement. This decision will be based on a covenant review, to determine whether the exit payment is affordable (based on specialist advice as needed)
- For this, the employer may be required to provide any financial information deemed necessary. If this information is not provided, then the default policy of immediate payment will apply
- Depending on the length of the spread period and the size of the debt, the Fund may request some form of additional security
- Any agreement may include non-uniform payments e.g. a lump sum up front followed by a series of payments over the agreed period. All payments required will include allowance for interest from the termination date
- The initial process to determine whether an exit debt should be spread may take up to 3 months from receipt of data, so it is important that employers who request to spread exit debt payments notify the Fund in good time
- If the covenant review confirms that the exit payment is not immediately affordable, the Administering Authority will engage in discussions with the employer about the potential spreading of exit payments. As part of this, the following will be considered and agreed:
 - The spreading period (usually subject to a maximum of 5 years)
 - The initial and annual payments due
 - The interest rates applicable and the costs associated with the plan
 - Any security required (e.g. bond, escrow account etc)
 - The employer's responsibilities during the period (e.g. the supply of covenant information)
 - The views of the Actuary, covenant, legal and any other specialists necessary
 - Circumstances where the plan might be reviewed or immediate payment requested (e.g. due to a significant change in covenant / circumstances)



- The Administering Authority will then make a final decision, based on the best interests of the Fund, and the arrangement will be documented

(3): Deferred Debt Agreement (DDA)

As an alternative to terminating participation in the Fund and triggering an exit payment, an employer may request to continue its participation in the Fund with no contributing members and utilise a “Deferred Debt Agreement” (DDA).

The Administering Authority will use the following process to determine whether a DDA is appropriate:

- Firstly, consider whether it is in the best interests of the Fund to enter into a DDA. This decision will be based on a covenant review, to determine whether the exit payment is affordable (based on specialist advice as needed).
- For this, the employer may be required to provide any financial information deemed necessary. If this information is not provided, then the default policy of immediate payment will apply
- Consider what additional security is required to protect the Fund
- This could include a lump sum up front to reduce the size of any potential termination debt
- The initial process to determine whether a DDA is appropriate may take up to 3 months from receipt of data, so it is important that employers who request the Administering Authority to consider a DDA, notify the Fund in good time
- If the covenant review confirms the exit debt is not affordable immediately / over the short-term, the Fund will engage with the employer on the potential format of a DDA, with the following will be considered and agreed:
 - What security the employer can offer (generally a DDA will only be allowed where the Fund is confident the employer can support the arrangement). Provision of security may also result in a review of the recovery period / funding arrangements
 - The funding assumptions and investment strategy to be applied
 - Whether an upfront cash payment should be made
 - The updated secondary contributions
 - The regular financial information required from the employer, and any other monitoring that will be required.



- The advice of the Actuary, covenant, legal and any other specialists necessary.
 - The responsibilities that would apply to the employer while they remain in the Fund
 - Circumstances triggering a revised recovery plan and contributions (e.g. due to a significant change in covenant / circumstances)
 - Circumstances that would trigger changes to the DDA, including a cessation of the agreement, an exit payment becoming payable (e.g. the removal of security, a significant change in covenant)
 - Circumstances where the employer may be able to vary the DDA (e.g. a further cash payment or change in security)
- The Administering Authority will then make a decision, based on the best interests of the Fund, confirm and document the required terms

For employers that are successful in entering into a DDA, contribution requirements will continue to be reviewed as part of each actuarial valuation, or in line with the DDA in the interim, if any of the agreed triggers are met.



Appendix F: Review of Employer Contributions between Valuations

The Regulations allow contributions to be reviewed and potentially revised between valuations at the Administering Authority's discretion, under the following scenarios:

- A significant change in the employer's membership which will have a material impact on their liabilities
- A significant change in the employer's covenant
- A change in circumstances meaning that (in the Administering Authority's opinion) the employer is likely to exit the Fund

1 and 2 (for "ongoing" employers) and 3 ("planning for exit") are addressed separately below. "Ongoing" employers are expected to remain in the Fund, and any review takes place on that basis. Employers "planning for exit" are expected to leave the Fund, and their review will focus on ensuring (where possible) a fully funded position at termination. Where more than one scenario applies, scenario 3 would normally take precedence.

While this Appendix sets out the default approach, the Fund may apply an alternative approach where individual circumstances warrant this (as determined by the Administering Authority, acting on the advice of the Fund Actuary).

Scenarios 1 and 2 (interim review for "ongoing" employers)

When contributions will be reviewed

The Administering Authority may trigger a review where it believes either 1 or 2 above apply. The employer should inform the Fund if it believes either may apply in line with the notifiable events framework ([here](#)) and may also request a review itself under those circumstances.

Where the review is triggered at the employer's request, they will be expected to pay all relevant costs. The Fund may recover costs in other circumstances (e.g. a review is triggered due to a material change in circumstances and the employer failed to notify to the Fund).

The Fund will not conduct a review where:



- The funding position changes solely due to changes in market conditions (asset movements or assumption changes) – this is not permitted under the regulations (but can be considered under a review triggered due to covenant changes)
- The next valuation rates and adjustments certificate is less than 6 months away and the review is triggered by membership changes (reviews in this period due to covenant changes may be considered)
- They do not believe that a review is necessary (considering the potential impact that any changes may have on the other employers or the Fund as a whole) or in the best interests of the Fund

Triggering a review – significant changes in the employer’s liabilities (1):

Examples of situations triggering such a review would include (but are not limited to):

- Significant changes to the employer’s membership which will have a material impact on their liabilities, such as:
 - Restructuring of an employer
 - A significant outsourcing or transfer of staff
 - A bulk transfer into or out of the employer
 - Other significant changes (e.g. due to redundancies, significant salary awards, ill health retirements or large number of withdrawals)
- Employers merging (including insourcing and transferring of services)
- The separation of an employer into two or more individual employers

Generally, the Fund will only consider a review if the change in liabilities is expected to be more than 5%. In some cases, this may mean there is also a change in the covenant of the employer.

Any review of the rate will only take into account the impact of the change in liabilities (including, if relevant, any underfunding in relation to pension strain costs), and the resulting impact on the Primary and Secondary rate of contributions.

Triggering a review – significant changes in the employer’s covenant (2):

Examples of situations triggering such a review would include (but are not limited to):

- Provision / removal / impairment of any security, bond, guarantee or other form of indemnity



- Material change in an employer's immediate financial strength or longer-term financial outlook, including where an employer ceases to operate or becomes insolvent
- Where an employer shows behaviour that suggests a change in their ability to pay contributions to the Fund.

In some instances, a change in the liabilities will also result in a change in an employer's covenant. However, changes in funding values due to market movements are not themselves usually sufficient to trigger a review.

Note that MHCLG has confirmed its view as set out in Scheme Advisory Board statement on surpluses issued in December 2023 that generally local authorities and other tax-backed employers are not subject to a change in covenant as they have a statutory obligation to pay employer contributions to the fund in which they participate.

Process and outcomes

Where the Administering Authority believes a relevant event may have occurred, the Administering Authority:

- will gather relevant information (including from the employer as required, e.g. annual accounts, budgets, forecasts, etc)
- may conduct a full updated covenant review, including advice from the Fund Actuary, covenant, legal and other specialist advisers as required
- will hold discussions with the employer as needed to clarify the relevant details

When they have considered all the relevant information, the Administering Authority will decide whether to proceed (at their sole discretion, including where an employer has requested a review). The review may consider any relevant elements including:

- Whether it is appropriate to use updated membership data (e.g. where the change in data is expected to have a material effect on the outcome) and whether any supporting information is required from the employer
- Whether the employer's covenant has changed significantly, in which case the review may allow for the updated funding position (both ongoing and termination positions)
- Whether the funding strategy remains appropriate
- Whether the primary contribution rate should be adjusted to allow for any profile change and/or funding strategy change



- Whether the length of the recovery period and size of the sustainability reserve adopted at the previous valuation remains appropriate

Any review of contributions may result in no change. The review of contributions may take up to 3 months from the date of confirmation to the employer that the review is taking place. Any change to an employer’s contributions will be implemented at a date confirmed by the Fund, with an updated contribution certificate being issued.

As part of this process the Administering Authority will consider whether it is appropriate to consult any other Fund employers prior to implementing the revised contributions. Circumstances where the Administering Authority may consider it appropriate to do so include where there is another employer acting as guarantor in the Fund.

The Administering Authority may agree a proportionate process for periodical ongoing monitoring and review following the implementation of the revised contribution plan. The employer will be required to provide information to the Fund to support this, which will depend in part on the reasons for triggering the original contribution review.

Scenario 3 (planning for exit)

The Administering Authority has the power to revisit any previously certified contributions if it becomes of the opinion that a change in circumstances means it is likely to exit from the Fund.

The Administering Authority’s opinion of this scenario will be driven by considerations (in addition to the scheduled end date of any admission agreement) such as the following:

Event	Comment
Notification from the employer of its intention to exit (or if it is expecting to reduce the number of members)	Dialogue will be entered into, and work commenced on managing a future exit payment
A more than 50% reduction in the number of active members between accounting period end dates	This would trigger a dialogue between the Administering Authority and the employer to understand the reasons for the change. This may lead to planning for exit work including a review of contribution requirements



Event	Comment
If there is a reduction of active members leaving only a small number*	This would initially trigger a dialogue between the Administering Authority and the employer to understand the underlying position. It is highly likely that planning for exit work would commence including a review of contribution requirements.

**The Administering Authority would treat each of these cases on its merits e.g. employers with very small numbers to start with would be considered appropriately in that context.*

Here any review of contributions would cover all aspects of the current contributions plan.

This would include:

- any likely termination debt
- targeting a fully funded termination position at exit
- the need for potential flexibilities on exit (as described in [Appendix E](#))

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Appendix G: Employer Risk Management

While this Appendix sets out the default approach, the Fund may apply an alternative approach where individual circumstances warrant this (as determined by the Administering Authority, acting on the advice of the Fund Actuary).

Employers without a guarantee from a tax raising authority

When an employer without a guarantee from a tax-raising authority exits the Fund (“terminates”), their liabilities become the responsibility of the remaining Fund employers (in proportion to each employer’s share of the Fund). To limit the chance of other employers having to contribute to the payment of the outgoing employer’s liabilities, the Fund uses more prudent actuarial assumptions to assess the exit amount payable. These assumptions typically produce a higher liability which in turn means that a higher amount of assets is required to be left in the Fund, to reduce the chance that the assets (after any termination payment) are insufficient to pay the benefits.

The Fund will seek to minimise the risk posed by non-guaranteed employers – specifically that they cannot meet any exit debt – where necessary by:

- Securing a bond based on the employer’s termination deficit (including potential redundancy strains). This may be adjusted to reflect the strength of the employer’s covenant at the Administering Authority’s discretion, or.
- Using more prudent funding assumptions when assessing the employer’s contributions. This results in higher contributions, to give a higher likelihood of the contributions and funding plan being enough to provide the relevant benefits (and to reduce the gap between the “ongoing” and termination liabilities)

Typically, the employer will have a choice of which approach to take (unless the Administering Authority judges that a particular approach is necessary to protect the Fund).



Employers covered

All employers without tax-raising powers or a guarantee from a tax-raising authority are covered by the policy. This will include:

- Community Admissions
- Higher Education Employers
- Transferee Admission Bodies (TABs) guaranteed by either of the above

Scheme employers, Academies, Designated Bodies, and the TABs they guarantee are out of scope of this policy and continue to be covered under the standard funding approach.

Assessment

The Fund will normally conduct an annual review for these employers (or as frequently as a particular employer's circumstances may otherwise warrant, based on risk exposure to the Fund). This will involve the following stages:

- Covenant assessment: This is as detailed in [Appendix H](#), although the Fund may seek a specialist covenant assessment where the level of risk merits this
- Termination deficit assessment: The Fund will assess the size of the termination deficit, and so the size of the unsecured potential debt, at the review date
- Set the required bond amount: This will be the termination deficit (plus potential redundancy strains), which at the discretion of the Fund, may be reduced to reflect covenant strength
- Note for some employers the required amount may be zero, e.g. if there is a surplus on the termination assumptions

Ongoing funding approach (primary and secondary contributions)

The approach will then depend on whether the employer chooses to provide the required bond (noting the Fund may insist on a bond to effectively manage risk for the remaining employers):

Full bond not provided:

- The employer's funding position, primary and secondary contributions would all be assessed using funding assumptions that gives a higher likelihood of the



contributions and funding plan being enough to provide the relevant benefits (see [Section B](#))

- Surplus offsets would be payable only in respect of any termination surplus

The funding assumptions used would be assessed at each valuation, based on the level of risk and the prudence in the standard funding assumptions.

In certain cases, the Fund may insist that any existing bond is maintained under this approach. The Fund will take into account the employer covenant rating and funding position in considering the approach to take.

Full bond provided (including those where the requirement is zero):

- The Employer's funding position, primary and secondary contributions would all be assessed using the standard funding assumptions
- Surplus offsets would be payable only in respect of any termination surplus

Ongoing monitoring

The Fund will normally assess the position each year, but adjustments to contributions / bonds will only usually be required as part of the triennial valuation. However, where the Fund perceives a material change in risk then, the contributions / bonds may be reviewed more frequently (in line with the Fund's policy on inter-valuation contribution reviews – [Appendix F](#)).



Appendix H: Covenant Assessment and Monitoring Policy

Employer Monitoring

The Fund adopts a regular monitoring and review plan to ensure that it can act proactively in the best interests of all Fund employers. The focus of the covenant monitoring is the employers without taxpayer backing, as they pose the greatest risk to the Fund (specifically the risk of unfunded exists). As such this policy is closely related to the Fund's Employer Risk Management Policy ([Appendix G](#)).

While this Appendix sets out the default approach, the Fund may apply an alternative approach where individual circumstances warrant this (as determined by the Administering Authority, acting on the advice of the Fund Actuary).

Covenant Assessments

An employer's covenant underpins its legal obligation and ability to meet its financial responsibilities now, and in the future. The strength of covenant depends upon the robustness of the legal agreements in place and the likelihood that the employer can meet them. The covenant underwrites the risks the Fund is exposed to, including underfunding, longevity, investment, and market forces.

An assessment of employer covenant may focus on determining any or all the following:

- Type of body and its origins
- Nature and enforceability of legal agreements
- Whether there is a bond in place and the level of the bond
- Whether there is an option to call in contingent assets
- The financial health of the employer
- Whether a more accelerated recovery plan should be enforced
- Is there a need for monitoring of ongoing and termination funding ahead of the next actuarial valuation?

The strength of covenant can vary substantially over relatively short periods, meaning regular monitoring and assessment is vital. The employers' covenant will be assessed and



monitored objectively in a proportionate manner, and an employer's ability to meet their obligations in the short and long term will be considered when determining its funding strategy.

Covenant assessments will also be required for any employers wishing to access the flexibilities around inter-valuation contributions reviews and alternative options on termination.

Risk Criteria

The assessment criteria upon which an employer should be reviewed could include:

- Nature and prospects of the employer's industry
- Employer's competitive position and relative size
- Management ability and track record
- Financial policy of the employer
- Profitability, cashflow and financial flexibility
- Employer's credit rating
- Position of the economy as a whole

Not all of the above would be applicable to assessing employer risk within the Fund; rather a proportionate approach to consideration of the above criteria would be made, with further consideration given to the following:

- The scale of obligations to the Fund relative to the size of the employer's operating cashflow
- The relative priority placed on the Fund compared to corporate finances
- An estimate of the amount which might be available to the Fund on insolvency of the employer as well as the likelihood of that eventuality.

Assessing employer covenant

Where appropriate, the employer's covenant will be monitored continuously at a high level using automated processes, with an annual update following publication of annual accounts and a full review at each triennial valuation.



An employer's ability to meet its obligations will be viewed in the context of the Fund's exposure to risk and volatility based on publicly available information and/or information provided by the employer. The monitoring of covenant strength along with the funding position (including on the termination basis) enables the Fund to anticipate and pre-empt employer funding issues and thus adopt a proactive approach. The approach taken will be proportionate to the associated risk to the Fund.

In order to accurately monitor employer covenant, it may be necessary for research to be carried out into employers' backgrounds and, in addition, for those employers to be contacted to gather as much information as possible. Focus will be placed on the regular monitoring of employers with a proactive rather than reactive view to mitigating risk.

Covenant risk management

The focus of the Fund's risk management is the identification and treatment of the risks, and it will be a continuous and evolving process which runs throughout the Fund's strategy. Mechanisms that will be explored with certain employers, as necessary, will include but are not limited to the following:

- Parental Guarantee and/or Indemnifying Bond
- Transfer to a more prudent actuarial basis (e.g. the lower risk basis (see [Section B](#)) or the termination basis)
- Shortened recovery periods and increased cash contributions
- Managed exit strategies
- Contingent assets and/or other security such as escrow accounts.



Appendix I: Notifiable Events Framework

It is considered to be in the best interests of the employer to inform the Fund of any notifiable events that occur. This will enable the Fund to work with the employer to find an effective solution, particularly in times of change or financial distress, and keep the interests of the employer, the Fund, the members, and a guarantor (if one exists) in mind. Early engagement is always more effective and efficient for all parties than retrospective steps.

By not informing the Fund of a notifiable event, it may be seen as a deliberate act to hide the information or delay the Fund from taking action. If the Fund becomes aware of an event that has not been openly communicated as part of this policy, they reserve the right to implement one or more of the actions set out below without the consent of the employer.

In the case of guaranteed employers this policy applies to both the employer and the guarantor.

A notifiable event is any event or circumstance that, in the judgement of the Fund, could materially affect one or more of the following:

- the employer's basis for continued participation in the Fund
- the employer's ability to pay its ongoing contributions to the Fund*
- the employer's ability to pay its termination debt to the Fund in the event of ceasing to participate in the Fund*

** These conditions would also apply where an employer and the Fund have entered into a Deferred Debt Agreement allowing continued participation as a Deferred Employer with no contributing members.*

This policy sets out a list of typical events that, if they apply, must be notified to the Fund within a reasonable time period. The list is not exhaustive and may be modified from time to time. The Fund would deem 10 working days to be reasonable in the majority of cases. In some cases, notification prior to the event occurring may be required and this is detailed within the relevant sections below. The Fund will ensure that all information is treated as confidential.

Employers will be notified if this notifiable events framework applies to them.



Events that must be notified to the Fund

The Fund considers any change that would be detrimental to either the employer's ability to finance their pension obligations or the ongoing viability of the employer to be 'material' and 'significant.'

Typical events that must be notified to the Fund include the following:

- **Significant changes in the employer's membership / liabilities**

This includes but is not limited to the following scenarios, where applicable:

1. Significant changes to the employer's membership which will have a material impact on their liabilities, such as:
 - a. Restructuring of the employer involving significant changes in staffing
 - b. A significant outsourcing or transfer of staff to another employer (not necessarily within the Fund) *
 - c. A bulk transfer of staff into the employer, or out of the employer to another pension scheme*
 - d. Other significant changes to the membership for example due to redundancies, significant salary awards, ill health retirements or a large number of member withdrawals*
 - e. A decision which will restrict the employer's active membership in the future*
2. Two or more employers merging including insourcing and transferring of services*
3. The separation of an employer into two or more individual employers*
4. Concerns of fraudulent activity that may include pensions aspects

**In these examples, the Fund requires prior notification of events at least 14 days before commencement of staff consultation regarding proposed changes to members' pensions. The Fund will ensure that all information is treated as confidential.*



Significant changes to the employer covenant

- **Significant changes in the employer's financial strength / security**

A material change in an employer's immediate financial strength or longer-term financial outlook. This includes but is not limited to the following scenarios (where applicable):

1. An employer's forecasts indicate reduced affordability of contributions.
2. A significant reduction in funding (e.g. reduction in grants, central government funding or other income stream)
3. Provision of security to any other party including lenders and alternative pension arrangements
4. Impairment of security, bond or guarantee provided by an employer to the Fund against their obligations
5. The sale or transfer of significant assets, where the net book value or sale value exceeds 10% of the employer's net assets
6. A material increase in gearing (i.e. taking on additional debt in order to finance its operations)
7. The employer has defaulted on payments
8. There has been a breach of banking (or other) covenant, or the employer has agreed a waiver with the lender
9. The employer's officers are seeking legal advice in the context of continuing to trade and/or potential wrongful trading
10. An employer becomes insolvent

- **A change in the employer's circumstances**

This includes but is not limited to the following scenarios, where applicable:

1. A merger of the employer with another organisation
2. An acquisition by the employer of another organisation or relinquishing control
3. An employer commences the wind down of its operations or ceases to trade
4. A material change in the employer's business model
5. A change in the employer's legal status (to include matters which might change qualification as a scheme employer under the LGPS Regulations)
6. The employer becoming aware of material suspected / actual fraud or financial irregularity
7. The employer becoming aware of material legal or court action against them



8. There has been suspension or conviction of senior personnel
9. Regulatory investigation and/or sanction by other regulators
10. Loss of accreditation by a professional, statutory or regulatory body

In the examples set out above, the Fund requires prior notification of these events (e.g., at the time that there has been a decision in principle rather than once the event has happened). The Fund will ensure that all information is treated as confidential.

What information should be provided to the Fund?

The information required will vary depending on the situation that has arisen. The first step will be to email or call the Fund to notify them of the event that has occurred.

What action will the Fund take once notified?

Where one of the listed events occurs, the Fund will discuss with the employer to clarify details of the event. If necessary, advice will be taken from the Fund Actuary, legal or covenant specialist advisors. Depending on the outcome of the Fund's review of the situation, potential actions that may be taken as a result are as follows:

- No further action required
- More detailed request for further information and ongoing monitoring
- The Fund will review the documentation provided and respond on next steps
- A review of employer contributions
- A review of the recovery period used to calculate secondary contributions
- A review of the employer's investment strategy
- A review of the termination position and discussions with the employer as to how this may be addressed
- A review of any deferred debt agreements if applicable

Employers will be kept informed of all steps throughout the process.



Appendix J: Ill Health Insurance Arrangements

Ill health retirements can be expensive for employers, particularly small employers where one or two costly ill health retirements can materially worsen the funding position and increase contributions.

To address this, for certain employers a captive insurance arrangement covers ill-health retirement costs. This has applied to all ill-health retirements since 1 April 2022, covering the early payment of pension and to the associated benefit costs.

While this Appendix sets out the default approach, the Fund may apply an alternative approach where individual circumstances warrant this (as determined by the Administering Authority, acting on the advice of the Fund Actuary).

Overview of arrangement

The captive arrangement operates as follows:

- “Premiums” are paid by eligible employers into the captive, which is tracked separately by the Fund Actuary in the valuation calculations. The premiums are included in the employer’s primary rate. The premium for 2026/29 is 0.75% of pay p.a.
- The captive is used to meet strain costs emerging from ill-health retirements in respect of active members, i.e. there is no initial impact on the deficit / surplus position for employers within the captive at the point of retirement (and as such any subsequent impact should be more manageable).
- The premiums are target being sufficient to cover the costs in the 3 years following the valuation. If any excess premiums over costs are built up, these will be used to offset future adverse experience and / or result in lower premiums at the discretion of the Administering Authority based on the advice of the Actuary.
- In the event of poor experience over a valuation period, any shortfall is effectively underwritten by the other Fund employers. However, future premiums will be adjusted to recover any shortfall over a reasonable period with a view to keeping premiums as stable as possible. Over time the captive should therefore be self-funding and smooth out fluctuations in the contribution requirements for those employers in the captive arrangement.



- Premiums payable are subject to review from valuation to valuation depending on experience and the expected ill health trends. They will also be adjusted for any changes in the LGPS benefits. They will be included in employer rates at each valuation or on commencement of participation for new employers.

Employers covered by the arrangement

The arrangement covers employers with less than 200 active members at the valuation date. New employers entering the Fund will also be included if they meet the criteria.

For all other employers, an allowance for the assumed level of ill-health retirements is included in the primary contributions, and any excess costs associated with ill-health retirements emerge as part of the subsequent valuation assessment, and so in any subsequent secondary rate contributions payable.

Employer Responsibilities

Apart from the regulatory procedures in place to ensure that ill-health retirements are properly controlled, employing bodies should be doing everything in their power to ensure robust processes are in place to determine eligibility for ill health retirements.

The Fund and the Actuary will monitor the number of retirements that each captive employer is granting over time. If any employer has an unusually high incidence of ill health retirements, consideration will be given to the governance around the eligibility criteria applied by the employer and it is possible that some or all of the costs would fall on that employer if the governance was not deemed strong enough, including on assessment of the final exit position.



Appendix K: Asset Share Policy

Background

Local Government Pension Scheme (LGPS) funds are not legally sectionalised by employer under the LGPS Regulations. An employer's allocated asset share is calculated on a notional basis, taking into account the circumstances of that employer in order to assess that employer's contributions (including on termination) as per the Regulations. Employer asset shares are considered formally at each actuarial valuation, with interim updates where required (e.g. for accounting disclosures or when an employer joins (usually a provisional figure) or leaves the Fund). Employer asset share values will move (most significantly) in line with the total Fund assets, according to Fund investment strategy and market movements. As well as individual employer funding, membership size, experience, cashflow and other events can cause changes in the employer asset share over time.

The Fund's Actuary assesses this asset share in line with policies agreed with the Administering Authority, which are routinely reviewed and informed by common practices across all LGPS funds. This document will be formally reviewed at least at each triennial actuarial valuation.

There is therefore no separately audited asset statement in relation to each employer's own asset allocation within the Fund and an employer does not formally get allocated the underlying assets. Furthermore, the Fund remains the legal owner of the assets and any decisions on the asset's rests with the Administering Authority, however they must be invested in line with the Regulations governing the LGPS. This is of particular importance in the context of accounting figures where the Fund will be unable to provide individual audited asset statements.

What are the key factors that can influence an employer's asset share?

In simple terms, an employer's asset share at a certain point in time will typically be determined by:

- The employer's provisional starting assets on admission, based on the admission data provided



- Any restatement of the opening assets following a more detailed review at the first formal valuation for that employer, in particular where the member data may differ to that provided at admission
- Plus, the employer and employee contributions
- Minus any net benefit/expense payments in relation to the employer
- Plus/Minus the impact of membership movements in/out of the employer
- Plus/Minus the net investment returns earned by the employer's assets

The employer investment strategy is a mirror of the total Fund strategy. In attributing the overall investment returns to each employer, a pro-rata principle is adopted.

In practice, there are a number of other factors that need to be taken into account and these are explained in more detail in this policy, together with the main circumstances when an asset share will need to be determined by the Actuary (e.g. the starting assets for an employer on entry to the Fund may vary depending on the type of employer and the funding approach adopted).

It is also important to note that it is often necessary to make some practical approximations in the timing of employer cashflows and allocation of investment returns when deriving the asset share for employers. Equally when members move between employers in the Fund, a notional intrafund transfer of assets is made.

It should be noted that whilst Funds will seek to allocate assets to employers in line with the approach set out in this paper, there may be occasions where the Fund and Actuary will need to apply a bespoke approach depending on the circumstances of a particular case (e.g. where one off adjustments could be required due to pending transfers after the calculation date). In such cases, the approach would be communicated to the employer to ensure transparency and to also preserve any audit trail for future reference.



Events when an asset allocation will be determined

Typically speaking, the circumstances when the Actuary will determine a notional asset allocation for an employer, during its participation in the Fund, will be as follows:

Event	Purpose
Admission to the Fund	Determine initial provisional balance sheet / contribution requirements
Triennial Actuarial Valuation	Inform decision making on contribution requirements
Employer Accounting	For employers to include in their accounts
Bulk Transfers	To determine value of payments to/from the Fund, or between employers in the Fund.
Inter-valuation funding updates	To assist with budget setting / inform decision making on contribution requirements
Cessation / Termination from the Fund	To determine potential exit payment to/from the outgoing employer.

Further information in relation to the above events is set out below.

Admission to the Fund

On entry to the Fund, unless a pooled or temporary contribution rate is payable (see comment below), the Actuary will be required to assess the contribution rate payable by the new employer once they join the Fund.

The provisional liabilities will be assessed by the Actuary based on the members transferring to the new employer (for benefits accrued up to the admission date).

The provisional asset share allocated to the new employer on entry to the Fund will be determined by the funding status and in line with Fund's admission policy. Further details are set out in the Employer Events Framework policy document. A summary of the key scenarios is set out below:

- For **fully funded admitted bodies**, the initial asset allocation will be the same as the value of the liabilities.



- For **partially funded admitted bodies**, the assets allocated will be equal to the value of the liabilities, less any deficit / plus any surplus allocated on inception based on agreed policies. This would be subject to a minimum asset allocation of zero.
- Where a local authority school **converts to academy status**, the Fund's policy is for the new academy to inherit the school's appropriate share of the ceding local authority deficit or surplus prior to its conversion. This is in accordance with the Scheme Advisory Board (SAB) guidance. The transferring deficit or surplus is calculated in line with the school/local authority "matching approach" (as defined in the guidance) to keep the contribution rate before/after conversion the same other than due to profile differences. The assets allocated to the new academy are the difference between the liabilities assessed for the academy at conversion and the deficit or surplus allocated to the academy upon conversion. In the case of a deficit, the deficit is subject to a limit to ensure that the minimum asset share of the new academy is nil.

The provisional admission figures above will be re-assessed at the first formal triennial valuation for that employer. In some cases, the data provided at the initial admission can differ materially to the data at the valuation; for example, some members included in the initial admission may not have joined the new employer.

Usually where a pooled rate is payable, a separate asset share isn't available for the constituent employers and is only available for the pooled group as a whole. The exception to this is where employers are pooled for accounting purposes (e.g. some Multi Academy Trusts), but the funding position is separately tracked. In situations where a temporary contribution rate is payable and hence an initial contribution rate assessment is not required, the initial asset allocation will be determined by the Actuary at the subsequent actuarial valuation (or accounting) exercise undertaken, whichever is first in line with the principles set out in this paper.

Actuarial Valuation

For all employers in the Fund at the triennial actuarial valuation, the Fund and the Actuary will review the notional asset share and liabilities of all employers in order to determine the funding position for each and set the contributions payable for the next inter-valuation period. The total assets allocated across the Fund will sum to the total assets shown in the audited Fund accounts.



This will be done in two approaches to ensure the asset share is appropriate to that employer, taking into account all relevant factors.

1. “Analysis of Surplus” approach

The Actuary will apply an “analysis of surplus” approach whereby the surplus/deficit position of each employer will be calculated according to their actuarial gains or losses since the previous valuation (or since admission if they are a new employer to the Fund). This approach allows for all factors including membership data changes since the previous valuation.

The emerging surplus/deficit is then added to/subtracted from the employer’s liabilities at the valuation date in order to determine the notional asset share. This is in line with common actuarial practices.

When undertaking the “analysis of surplus” approach the key drivers of the emerging asset allocation are a combination of:

- **Investment Returns** – The extent to which performance of the Fund’s assets (net of expenses), based on the underlying investment strategy applying to the employer, are greater/lesser than assumed at the previous valuation (or at admission if they are a new employer to the Fund).
- **Contributions** – The extent to which contributions (both employer and employee) payable over the inter-valuation period are more/less than the cost of benefits being accrued. This will include any early retirement strain costs incurred and any contributions paid towards those over the period.
- **Membership Experience** – The extent to which membership experience (e.g. salary growth, pension increases, ill-health retirements (and any associated claims on the captive ill-health insurance arrangement – see “Other adjustments” below), deaths etc.) has deviated from that expected based on the assumptions made at the preceding valuation (or admission date).
- **Benefit Payments** – For the most part, the combined total of transfers received/paid (both individual and bulk), lump sum payments (retirement and death), pension payments, and other payments to leavers will be broadly neutral on the “analysis of surplus” approach as they impact on the assets and liabilities equally, although the timing of such payments will be allowed for.
- **Membership Data Changes and Intrafund Transfers** – The “analysis of surplus” approach allows for changes in the underlying membership data where an actual



cashflow does not emerge. This includes individual member movements between employers within the Fund (which trigger a notional “intrafund” payment); the restatement of any underlying membership data between valuations and the impact of any notional transfers to new employers / from exiting employers based on the circumstances.

Generally speaking, cashflows will be assumed to occur half way through the period (each period considered is typically annual but may differ for new admissions since the prior valuation) and investment returns will be allocated to reflect this (with the exception of significant one-off contribution payments and allowance for significant transfers in/out of the Fund which will allow for time of payment).

This asset value emerging from the “analysis of surplus” approach is then reviewed for reasonableness against the corresponding “asset roll-forward” figure discussed below.

2. “Asset Roll-Forward” approach

Under this approach the assets allocated to an employer at the previous actuarial valuation (or date of entry to the Fund if later) are rolled forward to the current valuation date taking into account investment returns, contributions paid (employer and employee), benefit payments, transfer payments made into/out of the Fund, and net intrafund internal transfers (based on the individual liabilities of the members who have moved between employers, given a monetary transaction does not take place).

As with the “analysis of surplus” approach, cashflows will be assumed to occur halfway through the period (with the exception of significant one-off contribution payments and allowance for significant transfers in/out of the Fund which will allow for time of payment).

Which approach will be used to set the actuarial valuation position?

As noted above, the Actuary will calculate the actuarial valuation position for each employer under both the “analysis of surplus” and “asset roll forward” approaches. In the majority of cases, they would expect the asset allocation to be broadly the same. However, in some instances one approach will provide a more credible answer appropriate to setting the contribution requirements under the Regulations. For example, where there has been a significant change in membership resulting from transfers of members from one employer to another in the Fund (intrafund transfers), or material data changes, then it may be that the



analysis of surplus approach provides a more appropriate asset share for that employer. Critical to the process is what is appropriate to set the employer contribution rates, taking into account the individual circumstances of that employer as required under the Regulations.

Other Adjustments

The following additional adjustments are also made at each triennial valuation:

- **Orphan Employers** – Other adjustments will also be made by the Actuary to allow for orphan bodies in the Fund (i.e. historic employers whose liabilities are the responsibility of all other remaining active employers in the Fund in the absence of a guarantor body within the Fund) to ensure no residual surplus/deficit exists at the valuation date in relation to these employers. Any surplus or deficit in relation to these bodies would typically be allocated on a pro-rata basis across the appropriate employers, given the collective nature of the LGPS. To inform this, the Administering Authority must consider the orphan body funding requirements as part of each triennial valuation and reserve appropriately.
- **Audited total Fund assets** – At the actuarial valuation date, the total assets calculated for all employers (using the approaches above) are reconciled to the total Fund assets to ensure they are equal, and any difference is adjusted for on a pro-rata basis. If any adjustment required, it is typically small by the nature of the process adopted.
- **Ill health captive** – The Fund also operates a captive insurance arrangement to cover the ill health early retirement risks. The premiums are paid into the captive funds, which forms part of a separate notional pot of assets tracked by the Fund Actuary at each triennial valuation, and these are used to cover any ill-health costs for employers over each valuation period. Further information can be found in the captive policy within Appendix C of the Fund's Funding Strategy Statement (FSS).

Employer Accounting disclosures

Whilst not impacting on contributions payable to the Fund, some employers will be required to report figures in their annual accounts relating to the appropriate accounting standard (e.g. IAS19, FRS101/102 etc).



The production of an employer pension accounting disclosure report requires the Fund's Actuary (or the employer's own nominated Actuary if disclosures are calculated outside of the Fund's standard bulk process) to obtain an updated employer asset share value in relation to the employer's participation in the Fund. This is calculated based on the roll-forward approach only, which was agreed with CIPFA when accounting standards were introduced in the early 2000's for public bodies. Whilst some of the details in the CIPFA guidance have been superseded by changes in the accounting standards, the underlying roll-forward approach is still recognised and maintained.

The starting point for assessing the asset allocation will be the most recent actuarial valuation assessment undertaken (or the provisional admission assessment undertaken if later).

One of the differences between valuation/cessation exercises and accounting exercises is that the Actuary will typically only allow for changes in the membership data between accounting assessments (e.g. leavers, deaths, transfers of staff etc) where this is requested by the employer. It is the employer's responsibility (in conjunction with their auditor) to request allowance for such events to be made in their accounting figures based on their own materiality threshold.

To comply with short reporting timescales for employers, some estimations may be made where only part year data is available (e.g. cashflows and investment returns may be estimated for a small number of months). Employers will be notified of this within their accounting disclosure.

Once a triennial actuarial valuation exercise has been completed (i.e. the employer's asset share has been rebased taking into account all factors), the next set of accounting disclosures will be adjusted to reflect the impact of the updated valuation results. The re-basing every three years will come through as an experience adjustment on both the assets and the liabilities.

Bulk Transfers

On occasion, there may be a bulk transfer of staff between two employers. For internal (or intrafund) transfers, where the two employers both participate in the same fund, if the transfer is significant, the employers may ask the Actuary to calculate the potential impact on their balance sheet at the point of transfer, rather than at the subsequent actuarial valuation



(e.g. to reflect in inter-valuation accounting figures or for a contribution rate review). In such cases, in the same way as asset share calculations are undertaken on admission, the basis of transfer (i.e. fully funded or partially funded), will determine the value of assets to be transferred, alongside the underlying liabilities.

Where one of the employers involved in the transfer does not participate in the Fund, the value of the assets to be transferred to/from the Fund will be calculated in line with the underlying LGPS Regulations. This may involve a calculation of Cash Equivalent Transfer Values, or where the number of members transferring is sufficient, the methodology for determining the asset calculation will need to be agreed between the Fund actuaries (with input from the administering authority as required).

To facilitate and aid in meeting reporting timescales for employers, the Fund may apply some estimation to cashflows and investment returns where only part year data is available. This will be notified to employers when bulk transfer estimates are provided.

Inter-valuation funding update / contribution review

During an inter-valuation period, there may be occasions where the Actuary needs to determine an updated asset figure for an employer. Other than cessation (see below), the two main scenarios where a determination may be required would be:

- In the lead up to the next actuarial valuation - Where the assessment of an updated funding level for the employer will assist with potential budgeting discussions in light of how contribution requirements may evolve following the valuation, and
- Where the Fund agrees to a review of an employer's contribution requirements in advance of a valuation being undertaken - In line with the Fund's inter-valuation contribution review policy which can be found in section 5 of the Employer Events Framework Policy Document. This policy sets out the circumstances when such a review may be undertaken.

In both cases, the starting point for assessing the asset allocation will be the most recent actuarial valuation assessment undertaken (or date of admission if later). This figure will be rolled forward to the review date allowing for the investment returns / contributions / net benefit payments.



In the case of a contribution rate review, the impact of membership movements (which could include both movements between employers and changes in underlying data due) may also need to be considered.

Cessation of participation in the Fund

When a cessation occurs, the Actuary will be commissioned by the administering authority to undertake an assessment of the termination position, informed by an up-to-date assessment of the employer asset share. The termination policy sets out the policy by which amounts payable on cessation are determined, according to the nature of exit and the funding positions on exit.

As for other scenarios above, the starting point for assessing the asset allocation on cessation will be the most recent actuarial valuation assessment undertaken (or date of admission if later). This figure will be calculated at the termination date allowing for the investment returns / contributions / net benefit payments and membership experience/data changes (as per the comments above). For cessations, the final asset share will be dependent on the treatment of any remaining active members on cessation where a transfer to other employers is taking place (i.e. whether or not the transfer is on a partial/fully funded basis). Any residual assets would then be compared to the remaining non-active liabilities to determine any final payment due, payable from/to the employer. Following termination, the liabilities would either become orphan or subsumed into another employer in the Fund depending on the circumstances. Further information can be found in section 6 of the Employer Events Framework Policy Document.



Appendix L: Roles and Responsibilities of Key Parties

The efficient and effective management of the Fund can only be achieved if all parties (including pensions committee, investment managers, auditors and legal advisors, investment advisors, pension board etc) exercise their statutory duties and responsibilities conscientiously and diligently. The key parties and their roles for the purposes of the FSS are set out below:

<p>The Administering Authority should:</p>

- | |
|--|
| <ul style="list-style-type: none">• operate the Fund• collect employer and employee contributions, investment income and other amounts due to the Fund as stipulated in the Regulations• have an escalation policy in situations where employers fail to meet their obligations• pay from the Fund the relevant entitlements as stipulated in the Regulations• invest surplus monies in accordance the Regulations• ensure that cash is available to meet liabilities as and when they fall due• ensure benefits paid to members are accurate and undertake timely and appropriate action to rectify any inaccurate benefit payments• take measures as set out in the Regulations to safeguard the fund against the consequences of employer default• manage the valuation process in consultation with the Fund's Actuary• prepare and maintain a FSS and an Investment Strategy Statement ("ISS), both after proper consultation with interested parties• monitor all aspects of the Fund's performance and funding, amending the FSS/ISS as necessary• establish a policy around exit payments and payment of exit credits/debts in relation to employer exits• effectively manage any potential conflicts of interest arising from its dual role as both fund administrator and a scheme employer• enable the Local Pension Board (LPB) to review the valuation and FSS review process as set out in their terms of reference |
|--|



- support and monitor the LPB more generally as required by the Public Service Pensions Act 2013, the Regulations and the Pensions Regulator’s relevant Code of Practice

The Individual Employer should:

- ensure staff who are eligible are contractually enrolled and deduct contributions from employees’ pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations), unless they are a Deferred Employer
- pay all contributions, including their own, as determined by the Actuary and set out in the rates and adjustments certificate, promptly by the due date (including any exit payments upon ceasing participation where applicable)
- provide the Fund with accurate data and understand that the quality of the data provided to the Fund will directly impact on the assessment of their liabilities and their contributions. In particular, any deficiencies in their data may result in the employer paying higher contributions than otherwise would be the case if their data was of high quality
- notify the Administering Authority promptly of any changes to membership or their financial covenant to the Fund, which may affect future funding, and comply with any particular notifiable events specified by the Fund
- understand the pensions impacts of any changes to their organisational structure and service delivery model
- develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits and early retirement strain
- have regard to the Pensions Regulator’s focus on data quality and comply with any requirement set by the Administering Authority in this context
- comply with Regulations in the case of a bulk transfer of staff (noting that any costs incurred by the Fund will be recharged to the receiving/transferring employer)

The Fund Actuary should:

- prepare valuations including the setting of employers’ contribution rates at a level aiming to ensure fund solvency and long-term cost efficiency based on



assumptions set by the Administering Authority and having regard to its FSS and the LGPS Regulations

- provide advice so the Fund can set the necessary assumptions for the valuation
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters such as early retirement strain costs, ill health retirement costs, etc
- provide advice and valuations on the termination of admission agreements
- provide advice to the Administering Authority on the use of bonds and other forms of security against the financial effect on the Fund of employer default
- assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as required by the Regulations
- advise on funding strategy, the preparation of the FSS and the inter-relationship between the FSS and the ISS
- ensure the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to the Fund Actuary's role in advising the Fund
- identify to the Fund and manage any potential conflicts of interest that may arise in the delivery of the contractual arrangements to the Fund and other clients

A Guarantor should:

- notify the Administering Authority promptly of any changes to its guarantee status, as this may impact on the treatment of the employer in the valuation process or upon termination
- provide details of the agreement, and any changes to the agreement, between the employer and the guarantor to ensure appropriate treatment is applied to any calculations
- be aware of all guarantees that are currently in place
- work with the Fund and the employer in the context of the guarantee
- receive relevant information on the employer and their funding position in order to fulfil its obligations as a guarantor

Pensions Committee

The Pensions Committee is responsible for taking decisions on funding, risk and investment strategy and approval of material decisions and policies which have been developed by Fund Officers after taking advice from the Fund actuary, investment, legal and covenant



advisers as may be applicable in the circumstances. This will include, but is not limited to, the following:

- decisions on the appropriate level of risk across funding, investment and covenant strategies
- approval of the FSS including the actuarial assumptions used to determine the valuation
- approval of policies relating to funding and risk management, such as flexibility on termination, interim contribution reviews and employer risk.
- approval of discretionary decisions made by the Fund where these are material.

Local Pension Board

The Local Pension Board has responsibility to assist the administering authority to secure compliance with the LGPS regulations, other legislation relating to the governance and administration of the LGPS, any requirements imposed by the Regulator in relation to the LGPS, and to ensure the effective and efficient governance and administration of the LGPS.

In relation to the development of the FSS, this includes

- review of the FSS
- review the compliance of scheme employers with their duties under the FSS, regulations and other relevant legislation
- review of communications in relation to the FSS.



Appendix M: Glossary of Terms

Actuarial Valuation

An investigation by an actuary into the ability of the Fund to meet its liabilities. For the LGPS the Fund Actuary will assess the funding level of each participating employer and agree contribution rates with the Administering Authority to fund the cost of new benefits and make good any existing deficits as set out in the FSS. The asset value is based on market values at the valuation date.

Administering Authority

The council with a statutory responsibility for running the Fund and that is responsible for all aspects of its management and operation. This is Shropshire Council in relation to the Shropshire County Pension Fund.

Admission Bodies

A specific type of employer under the Local Government Pension Scheme (LGPS) who does not automatically qualify for participation in the Fund but is allowed to join if they satisfy the relevant criteria set out in the Regulations.

Admission Agreement

A written agreement which provides for a body to participate in the LGPS as a scheme employer.

Assumptions

Forecasts of future experience which impact the costs of the scheme. For example, pay growth, longevity of pensioners, inflation, and investment returns.

Benchmark

A measure against which fund performance is to be judged.



Benefits

The benefits provided by the Fund are specified in the governing legislation contained in the Regulations referred to within the FSS. Benefits payable under the Fund are guaranteed by statute and thereby the pensions promise is secure for members.

The Fund is a defined benefit arrangement with principally final salary related benefits from contributing members up to 1 April 2014 and Career Averaged Revalued Earnings (“CARE”) benefits earned thereafter. There is also a “50:50 Scheme Option,” where members can elect to accrue 50% of the full scheme benefits in relation to the member only and pay 50% of the normal member contribution.

Best Estimate Assumption

An assumption where the outcome has a 50/50 chance of being achieved.

Bonds

Loans are made to an issuer (often a government or a company) which undertakes to repay the loan at an agreed later date. The term refers generically to corporate bonds or government bonds (gilts). See also ‘index linked gilts’ and ‘gilts’ below.

Career Average Revalued Earnings (CARE) Scheme

With effect from 1 April 2014, benefits accrued by members in the LGPS take the form of CARE benefits. Every year members will accrue a pension benefit equivalent to 1/49th of their pensionable pay in that year. Each annual pension accrued receives inflationary increases (in line with the annual change in the Consumer Prices Index) over the period to retirement.

CMI

The ‘Continuous Mortality Investigation’ carries out research in relation to mortality and morbidity experience which can be used by actuaries to assess the funding required by pension funds and other bodies.

Code of Practice

The Pensions Regulator’s General Code of Practice.



CPI

Acronym standing for “Consumer Prices Index.” CPI is a measure of inflation with a basket of goods that is assessed on an annual basis. The reference goods and services differ from those of RPI, and the method of calculation is different. The CPI is expected to provide lower, less volatile inflation increases. Pension increases in the LGPS are linked to the annual change in CPI.

CPIH

An alternative measure of CPI which includes owner occupiers’ housing costs and Council Tax (which are excluded from CPI).

Contingent Assets

Assets held by employers in the Fund that can be called upon by the Fund in the event of the employer not being able to cover the debt due upon termination. The terms will be set out in a separate agreement between the Fund and employer.

Covenant

The assessed financial strength of the employer. A strong covenant indicates a greater legal obligation and financial ability to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term or affordability constraints in the short term.

Data (Section 13)

For GAD to carry out its function under Section 13 of the Public Service Pensions Act 2013, GAD will request data to be provided by the local administering authorities/local fund actuaries, and it is assumed that this data will be provided promptly and accurately.

Debt Spreading Arrangement (DSA)

The ability to spread an exit payment over a period of time.



Deferred Debt Agreement (DDA)

A written agreement between the Administering Authority and an exiting Fund employer for that employer to defer their obligation to make an exit payment and continue to make contributions at the assessed secondary rate until the termination of the DDA.

Deferred Employer

An employer that has entered into a DDA with the Fund.

Deficit

The extent to which the value of the Fund's past service liabilities exceeds the value of the Fund's assets. This relates to assets and liabilities built up to date and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).

Deficit Recovery Period

The target length of time over which the current deficit is intended to be paid off. A shorter period will give rise to a higher annual contribution, and vice versa.

Derivatives

Financial instruments linked to the performance of specific assets which can be used to magnify or reduce exposure to those assets.

Discount Rate

The rate of interest used to convert a cash amount e.g., future benefit payments occurring in the future to a present value i.e., the liabilities. A higher discount rate means lower liabilities and vice versa.

Early Retirement Strain

The additional cost incurred by a scheme employer as a result of allowing a Scheme Member aged 55 or over to retire before Normal Retirement Age and to receive a full pension based on accrued service at the date of retirement without full actuarial reduction.



Employer's future service contribution rate ("Primary Rate")

The contribution rate required to meet the cost of the future accrual of benefits including ancillary, death in service and ill health benefits together with administration costs. It is expressed as a percentage of pensionable pay, ignoring any past service surplus or deficit, but allowing for any employer-specific circumstances, such as its membership profile, the funding strategy adopted for that employer, the actuarial method used and/or the employer's covenant. The Primary Contribution Rate for the whole Fund is the weighted average (by payroll) of the individual employers' Primary Contribution Rates. For any employer, the rate they are actually required to pay is the sum of the Primary and Secondary rates.

Employing Bodies

Any organisation that participates in the LGPS, including admission bodies and fund employers.

Equities

Shares in a company which are bought and sold on a stock exchange.

Equity Protection

An insurance contract which provides protection against falls in equity markets. Depending on the pricing structure, this may be financed by giving up some of the upside potential in equity market gains.

Exit Credit

The amount payable from the Fund to an exiting employer where the exiting employer is determined to be in surplus at the point of cessation based on a termination assessment by the Fund Actuary.

Fund / Scheme Employers

Employers that have the statutory right to participate in the LGPS. These organizations (set out in Part 1 of Schedule 2 of the 2013 Regulations) would not need to designate eligibility, unlike the Part 2 fund Employers. For example, these include councils, colleges, universities, and academies



Funding or Solvency Level

The ratio of the value of the Fund's assets and the value of the Fund's liabilities expressed as a percentage.

Funding Strategy Statement (FSS)

This is a key governance document which the Administering Authority is obliged to prepare and publish that outlines how the Administering Authority will manage employer's contributions and risks to the Fund.

Fund valuation date

The effective date of the triennial fund valuation.

Gilts

Loans made to the UK Government, which the Government undertakes to repay at an agreed later date. The "coupon" (i.e., the interest paid as part of the loan agreement), and the final settlement amount will be a fixed amount and agreed at the outset of the loan.

Government Actuary's Department (GAD)

GAD is responsible for providing actuarial advice to public sector clients. GAD is a non-ministerial department of HM Treasury.

Guarantee / guarantor

A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will usually mean, for instance, that the Fund can consider the employer's covenant to be as strong as its guarantor's (subject to the nature including legal enforceability of the guarantee).

This may extend to the guarantor assuming responsibility for future funding needs relating to the pension obligations for the employer after it has terminated the Fund, with the assets and liabilities of the former employer subsumed by the guarantor.



Guarantee of exit debt

For the purposes of the FSS, a guarantee of the exit debt refers to the situation where an employer has exhausted all alternative options for payment of an exit debt and so the debt is recovered from another employer, which may or may not also participate in the Fund (and if the guarantor is in the Fund, the liabilities are not subsumed in this case).

Hedging

A strategy that aims to reduce funding volatility and provide higher certainty of returns. This is achieved by investing in assets (usually bonds or gilts) that capture levels of real yield based on agreed levels so the assets mimic the change in liabilities.

Ill-health captive

This is a notional fund designed to protect certain employers against excessive ill health costs in return for an agreed insurance premium. It works like insurance in that a fixed premium is paid by employers who are part of the captive and then the captive arrangement will meet ill health funding costs that may arise in future, in respect of the employer's members, providing the policy criteria is met.

Index linked gilts

Loans made to the UK Government, which the Government undertakes to repay at an agreed later date. The coupon (i.e., the interest paid as part of the loan agreement), and the final settlement amount are adjusted in line with the movements in RPI inflation in order to retain their 'real' value over time and protect against the potential effects of inflation.

Investment strategy

The long-term distribution of assets among various asset classes that takes into account the Funds objectives and attitude to risk.

Letting employer

An employer that outsources part of its services/workforce to another employer, usually a contractor. The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer.



LGPS

The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate those employing bodies which are eligible to participate, members' contribution rates, benefit calculations, and certain governance requirements.

Liabilities

The actuarially calculated present value of all benefit entitlements i.e., Fund cashflows of all members of the Fund, accumulated to date or in the future. The liabilities in relation to the benefit entitlements earned up to the valuation date are compared with the present market value of Fund assets to derive the deficit and funding/solvency level. Liabilities can be assessed on different set of actuarial assumptions depending on the purpose of the valuation.

Liability driven investments (LDI)

A way of investing which gives multiple exposure to gilts, meaning that the Fund can hedge part of its assets against changes in liabilities in order to provide protection against changes in interest rate and / or market RPI inflation expectations.

Local Pension Board (LPB)

The board established to assist the administering authority (as the Scheme Manager for each fund).

Long-term cost efficiency

This is a measure of the extent to which the Fund's policies properly address the need to balance immediate budgetary pressures with the undesirability of imposing an excessive debt burden on future generations.

Lower risk funding basis

An approach where the discount rate used to assess the liabilities is determined based on the expected long-term return achieved on the Fund's lower risk investment strategy. This is usually adopted for employers who are deemed to have a weaker covenant than others in the Fund, are planning to exit the Fund or would like to target a lower risk strategy. This



basis is adopted for ongoing contribution rate purposes as the employers' asset share is invested in the lower risk investment strategy.

Mandatory scheme employers

Employers that have the statutory right to participate in the LGPS. These organizations (set out in Part 1 of Schedule 2 of the 2013 Regulations) would not need to designate eligibility, unlike the Part 2 Scheme Employers. For example, these include councils, colleges, universities, and academies.

Maturity

A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.

McCloud Judgment

This refers to the linked legal cases of Sargeant and McCloud, which found that the transitional protections (which were afforded to older members when the public service pension schemes were reformed in 2014/15) constituted unlawful age discrimination.

Members

The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired and dependents of deceased ex-employees).

MHCLG

Ministry of Housing, Communities & Local Government

Minimum risk funding basis

An approach where the discount rate used to assess the liabilities is determined based on the market yields of Government bond investments based on the appropriate duration of the liabilities being assessed. This is usually adopted when an employer is exiting the Fund.



Non-statutory guidance

Guidance, which although it confers no statutory obligation on the parties named, should nevertheless have regard to its contents.

Notifiable events

Events which the employer should make the administering authority aware of.

Orphan liabilities

Liabilities in the Fund for which there is no sponsoring employer within the Fund. Ultimately, orphan liabilities must be underwritten by all other employers in the Fund.

Pass-through arrangement

Pass-through is a contractual agreement between the two parties, external to the Fund, setting out how LGPS pension risk is shared. Where new employers join the Fund under such arrangements with the letting employer, a contribution rate for the new employer would be set in the normal way. The extent to which funding “cost” is then reallocated between the letting employer and the admitted body would then be agreed as part of the commercial agreement in place.

Pension Committee

A committee or sub-committee to which an administering authority has delegated its pension function.

Pensions Administration Strategy

A statement of the duties and responsibilities of scheme employers and administering authorities to ensure the effective management of the scheme.

Percentiles

A method of ranking a series of outcomes. For example, a 10th percentile outcome means that only 10% of results would be expected to be as good as or better than the 10th percentile and 90% of results would be expected to be worse.



Phasing/stepping of contributions

When there is an increase/decrease in an employer's long term contribution requirements, the increase in contributions can be gradually "stepped" or phased in over an agreed period. The phasing/stepping can be in equal steps or on a bespoke basis for each employer.

Pooling

Employers may be grouped together for the purpose of calculating contribution rates, (i.e., a single contribution rate applicable to all employers in the pool). A pool may still require each individual employer to ultimately pay for its own share of deficit, or (if formally agreed) it may allow deficits to be passed from one employer to another.

Prepayment

The payment by employers of contributions to the Fund earlier than that certified by the Actuary. The amount paid will be reduced in monetary terms compared to the certified amount to reflect the early payment.

Present Value

The value of projected benefit payments, discounted back to the valuation date.

Primary rate of the employer's contribution

See definition of Employer's Primary Contribution Rate.

Profile

The profile of an employer's membership or liability reflects various measurements of that employer's members, i.e., current, and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members compared to their salary levels, etc.

Prudent assumption

An assumption where the outcome has a greater than 50/50 chance of being achieved i.e., the outcome is more likely to be overstated than understated. Legislation and Guidance require the assumptions adopted for an actuarial valuation to be sufficiently prudent.



Rates and adjustments certificate

A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal valuation. This is completed by the Actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three-year period until the next valuation is completed.

Real return or real discount rate

A rate of return or discount rate of (CPI) inflation.

Recovery plan

If the funding level of an employer is above or below 100% at the valuation date (i.e. the assets of the employer are more or less than the liabilities), a recovery plan may be needed to return the funding level back to 100% over a fixed period (“the recovery period”, as defined in the Funding Strategy Statement). The recovery plan will set out the Secondary contributions payable by an employer over the recovery period. Secondary contributions can be positive or negative (i.e., an off set to future accrual costs) but there are restrictions over which negative Secondary contributions will be applied, as set out in the Fund’s policy.

SAB funding basis or SAB basis

A set of actuarial assumptions determined by the LGPS Scheme Advisory Board (SAB). Its purposes are to set out the funding position on a standardised approach so that comparisons can be made with other LGPS Funds, and to assist with the “Section 13 review” as carried out by the Government Actuary’s Department. As an example, the real discount rate over and above CPI used in the SAB Basis as at 31 March 2025 was 2.4% p.a., so it can be substantially different from the actuarial assumptions used to calculate the Fund’s solvency funding position and contribution outcomes for employers.

Scheduled bodies

Type of employer is explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS fund. These include Councils, colleges, universities, police, and fire authorities etc., other than employees who have entitlement to a different public sector pension scheme (e.g., teachers, police and fire officers, university lecturers).



Scheme manager

A person or body responsible for managing or administering a pension scheme established under section 1 of the 2013 Act. In the case of the LGPS, each fund has a Scheme Manager which is the administering authority. For the Shropshire County Pension Fund this would be Shropshire Council as Administering Authority for the Fund.

Secondary rate of the employer's contribution

An adjustment to the Primary Rate to reflect any past service deficit or surplus, to arrive at the rate each employer is required to pay. The Secondary Rate may be expressed as a percentage adjustment to the Primary Rate, and/or a cash adjustment in each of the three years beginning 1 April in the year following that in which the valuation date falls. The Secondary Rate is specified in the Rates and Adjustments Certificate. For any employer, the rate they are actually required to pay is the sum of the Primary and Secondary Rates. Secondary Rates for the whole fund in each of the three years shall also be disclosed. These will be calculated as the weighted average based on the whole fund payroll in respect of percentage rates and as a total amount in respect of cash adjustments.

Section 13 Valuation

In accordance with Section 13 of the Public Service Pensions Act 2014, the Government Actuary's Department (GAD) have been commissioned to advise the Department for Levelling Up, Housing and Communities (DLUHC) in connection with reviewing the 2025 LGPS actuarial valuations. All LGPS Funds therefore will be assessed on a standardised set of assumptions as part of this process

Solvency funding target

An assessment of the present value of benefits to be paid in the future. The desired funding target is to achieve a solvency level of 100%, i.e., assets equal to the accrued liabilities at the valuation date assessed on the ongoing concern basis.

Strain costs

The costs arising when a member retires before their normal retirement date and receive their pensions immediately without actuarial reduction. As far as the Fund is concerned, where the retirements are not caused by ill health, these costs are invoiced directly to the



retiring member's employer at the retirement date and treated by the Fund as additional contributions. The costs are calculated by the Actuary.

Surplus reserve

The amount of assets (which may be zero), expressed as a proportion of an employer's liabilities, which will be retained in the Fund for the benefit of the employer to protect against adverse experience leading to unsustainable contributions levels.

Swaps

A generic term for contracts put in place with financial institutions such as banks to limit the Fund's investment and other financial risks where financial obligations on one basis are "swapped" for financial obligations on another basis.

Valuation funding basis

The financial and demographic assumptions used to determine the employer's contribution requirements. The relevant discount rate used for valuing the present value of liabilities is consistent with an expected rate of return of the fund's investments, expressed as an expected out-performance over CPI in the long term by the fund's assets i.e. the "real rate".

50/50 Scheme

In the LGPS, active members are given the option of accruing a lower personal benefit in the 50/50 Scheme, in return for paying a lower level of contribution.