

# London Borough of Lewisham Pension Fund

## Funding Strategy Statement

### March 2026

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London Borough of Lewisham Pension Fund – Funding Strategy Statement

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# 1 Purpose of the London Borough of Lewisham Pension Fund and the funding strategy statement

This document sets out the Funding Strategy Statement (FSS) for London Borough of Lewisham Pension Fund.

The London Borough of Lewisham Pension Fund is administered by Lewisham Council, known as the administering authority. Lewisham Council worked with the Fund's Actuary, Hymans Robertson, to prepare this FSS which is effective from 1 April 2026.

There's a regulatory requirement for Lewisham Council to prepare an FSS. You can find out more about the regulatory framework in [Appendix A](#). If you have any queries about the FSS, contact Shida Ashrafi at [shida.ashrafi@lewisham.gov.uk](mailto:shida.ashrafi@lewisham.gov.uk).

## 1.1 What is the London Borough of Lewisham Pension Fund?

The London Borough of Lewisham Pension Fund is part of the Local Government Pension Scheme (LGPS). You can find more information about the LGPS at [www.lgpsmember.org](http://www.lgpsmember.org). The administering authority runs the Fund on behalf of participating employers, their employees and current and future pensioners. You can find out more about roles and responsibilities in [Appendix B](#).

## 1.2 What are the funding strategy objectives?

The funding strategy objectives are to:

- take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient funds to pay benefits to members and their dependants
- use a balanced investment strategy to minimise long-term cash contributions from employers and meet the regulatory requirement for long-term cost efficiency
- where appropriate, ensure stable employer contribution rates
- reflect different employers' characteristics to set their contribution rates, using a transparent funding strategy
- use reasonable measures to reduce the risk of an employer defaulting on its pension obligations.

The Fund will engage with employers when developing funding strategy in a way which balances the risk appetite of stakeholders.

## 1.3 Who is the FSS for?

The FSS is mainly for employers participating in the Fund, because it sets out how money will be collected from them to meet the Fund's obligations to pay members' benefits.

Different types of employers participate in the Fund:

- **Scheduled bodies**  
Employers who are specified in a schedule to the LGPS regulations, including councils and employers like academies and further education establishments. Scheduled bodies must give employees access to the LGPS if they can't accrue benefits in another pension scheme, such as another public service pension scheme.
- **Designating employers (otherwise known as Resolution bodies)**  
Employers like town and parish councils can join the LGPS through a resolution. If a resolution is passed, the Fund can't refuse entry. The employer then decides which employees can join the scheme.

- **Admission bodies**

Other employers can join through an admission agreement. The Fund can set participation criteria for them and can refuse entry if the requirements aren't met. This type of employer includes contractors providing outsourced services like cleaning or catering to a scheduled body.

Some existing employers may be referred to as **community admission bodies** (CABs). CABs are employers with a community of interest with another scheme employer. Others may be called **transferee admission bodies** (TABs), which provide services for scheme employers. These terms aren't defined under current regulations but remain in common use from previous regulations.

The Scheme Advisory Board refer to three different tiers of employers which may participate in the LGPS, specifically:

- Tier 1 – Local Authorities (including contractors participating in the LGPS with Local Authority backing)
- Tier 2 – Academy Trusts and Further Education Institutions (Colleges).
- Tier 3 – Standalone employers with no local or national taxpayer backing (some universities, housing associations and charities).

#### **1.4 How is the funding strategy specific to the London Borough of Lewisham Pension Fund?**

The funding strategy reflects the specific characteristics of the Fund employers and its own investment strategy.

#### **1.5 How often is the Funding Strategy Statement reviewed?**

The FSS is reviewed in detail at least every three years ahead of the triennial actuarial valuation.

Amendments to the FSS may be in the following circumstances:

- material changes to the scheme benefit structure (e.g. HM Treasury-led)
- on the advice of the Fund Actuary
- Significant changes to investment strategy or if there has been significant market volatility which impacts the FSS or goes beyond FSS expectation
- 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 of the employing authorities 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 administering authority should consider:

- looking at experiences in relation to long-term funding assumptions (in terms of both investment income and forecast contributions income) and consequences of actions taken by employers (e.g. pay awards and early retirements)
- the implications for the funding strategy and, if significant, determine what action should be taken to review the FSS

- the implications arising from the funding strategy for meeting the liabilities of individual employers and any amendments required to the ISS
- consulting with individual employers specifically impacted by any changes as an integral part of the monitoring and review process and ensuring any communication regarding a review won't necessarily lead to rates changes for individual employers but could impact admissions, terminations, approach to managing risk and employer risk assessment.

Any amendments will be consulted on, approved by the Pensions Investments Committee and included in the Committee meeting minutes.

This Funding Strategy Statement is effective from 1 April 2026 and is expected to remain in force until 31 March 2029 at the latest, unless an interim review is carried out prior to then.

### **1.6 Actuarial valuation report**

[LGPS Regulations](#) (specifically Regulation 62) require an actuarial valuation to be carried out every three years, under which contribution rates for all participating employers are set for the following three years. This Funding Strategy Statement sets out the assumptions and methodology underpinning the 2025 actuarial valuation. The actuarial valuation report sets out 1) the Actuary's assessment of the past service funding position, and 2) the contributions required to ensure full funding by the end of the time horizon. The Rates and Adjustments certificate shows the contribution rates payable by each employer (which may be expressed as a percentage of payroll and/or monetary amounts).

## Part A – Key Funding Principles

### 2 How does the Fund calculate employer contributions?

#### 2.1 Calculating contribution rates

Employee contribution rates are set by the LGPS regulations.

Employer contributions are determined by a mandatory actuarial valuation exercise, and are made up of the following elements:

- **the primary contribution rate** – contributions payable towards future benefits
- **the secondary contribution rate** – the difference between the primary rate and the total employer contribution required.

The primary rate also includes an allowance for the Fund's expenses.

The Fund Actuary uses a methodology known as Asset Liability Modelling to set employer contribution rates. Under this methodology, for a given proposed employer contribution rate, the model projects future asset and liability values for the employer under 5,000 different simulations of the future economic environment. Each simulation – generated by Hymans Robertson's Economic Scenario Service (ESS) model - has a different path for future interest rates, inflation rates and the investment return on different asset classes. This approach allows the Fund Actuary to understand the potential range of future funding outcomes that could be achieved via payment of that contribution rate.

The Fund has set *funding strategy criteria* for each employer in the Fund which must be satisfied in order for a given employer contribution to be deemed acceptable. The funding strategy criteria are specified in terms of the following four parameters:

- **the target funding level** – how much money the Fund aims to hold for each employer
- **the time horizon** – the time over which the employer aims to achieve the funding target
- **the funding basis** – the set of actuarial assumptions used to value the employer's (past and future service) liabilities
- **the likelihood of success** – the proportion of modelled scenarios where the funding target is met.

For example, an employer's funding strategy criteria may be set as follows:

*The employer must have at least a **75% likelihood** of being **100% funded** on the **ongoing participation basis** at the end of a **20 year** funding time horizon*

The funding strategy criteria used by the Fund are set out in Table 1. Further detail on the ESS and on the funding bases used by the Fund are set out in [Appendix E](#).

The contribution rate setting approach takes into account the maturing profile of the membership when setting employer contribution rates and helps the Fund meet the aim of maintaining as stable a primary employer contribution rate as possible.

## 2.2 The contribution rate calculation

**Table 1: contribution rate calculation for individual or pooled employers**

Type of employer	Scheduled bodies		CABs and designating employers		TABs*
	Council	Academies and colleges	Open to new entrants	Closed to new entrants	(all)
SAB Tier	Tier 1	Tier 2	Tier 3	Tier 3	Tier 1
<b>Funding basis*</b>	Ongoing	Ongoing	Ongoing, but may move to low-risk exit basis		Ongoing
<b>Target funding level</b>	100%	100%	100%	100%	100%
<b>Minimum likelihood of success</b>	66%	66%	80%	80%	Same as the letting employer
<b>Maximum time horizon</b>	20 years	20 years	20 years	Future working lifetime	Same as the letting employer
<b>Primary rate approach**</b>	The contributions must be sufficient to meet the cost of benefits earned in the future with the required likelihood of success at the end of the time horizon, expressed as a percentage of pensionable pay				
<b>Secondary rate</b>	The difference between the total contribution rate payable (determined as per 2.1) and the primary rate. Negative adjustments are expressed as a percentage of payroll and positive adjustments can be expressed as a percentage of payroll or monetary amounts.				
<b>Stabilised contribution rate?</b>	Yes	Partial	No	No	No
<b>Treatment of surplus</b>	Covered by stabilisation arrangement	Covered by partial stabilisation arrangement***	Reduce contribution by spreading the surplus over the remaining time horizon	Reduce contributions by spreading the surplus over the remaining contract term	
<b>Recognising covenant</b>	Stabilisation parameters	Adjust likelihood of success and/or time horizon			
<b>Phasing of contribution changes</b>	Covered by stabilisation arrangement	3 years			None

*Employers participating in the Fund under a pass-through agreement will pay a contribution rate as agreed between the contractor and letting authority.*

\* See [Appendix E](#) for further information on funding targets.

*\*\* The Primary Rate for the whole Fund is the weighted average (by payroll) of the individual employers' primary rates*

*\*\*\*Partial stabilisation refers to employers who will likely be permitted to formally join the fully stabilised approach from 1 April 2029 following the next valuation of the Fund. At the 2025 valuation, the principles of stabilisation were informally applied in order to maintain consistency with the Council and maintained schools.*

The Fund manages funding risks as part of the wider risk management framework, as documented in the Fund's risk register. The funding-specific risks identified and managed by the Fund are set out in [Appendix D – Risks and Controls](#).

### 2.3 Making contribution rates stable

Making employer contribution rates reasonably stable is an important funding objective. Where appropriate, contributions are set with this objective in mind. The Fund may adopt a stabilised approach to setting contributions for individual employers, which keeps contribution variations within a pre-determined range from year-to-year.

After taking advice from the Fund Actuary, the administering authority believes a stabilised approach is a prudent longer-term strategy for local authority employers. Based on the stabilised approach, the Council will pay 17.6% of pay.

### 2.4 Links to investment strategy

The funding strategy sets out how money will be collected from employers to meet the Fund's obligations. Contributions, assets and other income are then invested according to an investment strategy set by the administering authority.

The funding and investment strategies are closely linked. 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 fall short the Fund won't be able to pay benefits, so higher contributions would be required from employers.

The investment strategy is designed allowing for the funding position determined on an appropriate and prudent basis, with the objective of achieving the funding objective for each employer group of the specific time horizon.

The Fund's current strategic investment strategy as at 31 March 2025 is summarised in the table below and is subject to change.

Asset class	Allocation
Global Equity	45.00%
Emerging Market Equity	5.00%
Private Equity	3.00%
Property	10.00%
Infrastructure	12.00%
Private Credit	6.00%
Corporate Bonds	6.33%

Fixed Interest Gilts	6.33%
Index Linked Gilts	6.33%

## 2.5 Does the funding strategy reflect the investment strategy?

The funding policy is consistent with the investment strategy. Future investment return expectations are set with reference to the investment strategy, including a margin for prudence which is consistent with the regulatory requirement that funds take a 'prudent longer-term view' of funding liabilities (see [Appendix A](#))

## 2.6 Reviewing contributions between valuations

The Fund may amend contribution rates between formal valuations, in line with its policy on contribution reviews. The Fund's policy is available in [Appendix F](#). The purpose of any review is to establish the most appropriate contributions. A review may lead to an increase or decrease in contributions.

## 2.7 What is pooling?

The administering authority operates funding pools for employers who are closely related to one another. Contribution rates can be volatile for smaller employers that are more sensitive to individual membership changes – pooling across a group of employers minimises this. In this type of pooling arrangement, employers do not target full funding, the pool as a whole targets full funding.

Employers in a pool maintain their individual funding positions, tracked by the Fund Actuary. That means some employers may be better funded or more poorly funded than the pool average. If pooled employers used stand-alone funding rather than pooling, their contribution rates could be higher or lower than the pool rate.

Pooled employers are identified in the rates and adjustments certificate and only have their pooled contributions certified. Individual contribution rates aren't disclosed to pooled employers, unless agreed by the administering authority.

CABs that are closed to new entrants aren't usually allowed to enter a pool.

If an employer leaves the Fund, the required contributions are based on their own funding position rather than the pool average. Cessation terms also apply, which means higher contributions may be required at that point.

## 2.8 Administering authority discretion

Individual employers may be affected by circumstances not easily managed within the FSS rules and policies. If this happens, the administering authority may adopt alternative funding approaches on a case-by-case basis.

Additionally, the administering authority may allow greater flexibility to the employer's contributions if added security is provided. Flexibility could include things like a reduced contribution rate, extended time horizon, or permission to join a pool. Added security may include a suitable bond, a legally binding guarantee from an appropriate third party, or security over an asset.

The Fund permits the prepayment of employer contributions in specific circumstances. This is at the ultimate discretion of the administering authority.

## 2.9 Non cash funding

The Fund will not accept any form of non-cash assets in lieu of contributions.

## 2.10 Managing surpluses and deficits

The funding strategy is designed to ensure that all employers are at least fully funded on a prudent basis at the end of their own specific time horizon. The uncertain and volatile nature of pension scheme funding means that

it is likely there will be times when employers are in surplus and times when employers are in deficit. The funding strategy recognises this by 1) including sufficient prudence to manage the effect of this over the time horizon, and 2) making changes to employer contribution rates to ensure the funding strategy objectives are met.

Fluctuations in funding positions are inevitable over the time horizon, due to market movements and changing asset values, which could lead to the emergence of deficits and surplus from time to time, and lead to changes in employer contribution rates.

Table 1 sets out the Fund's approach to setting contribution rates for each employer group.

### 3 What additional contributions may be payable?

#### **3.1 Pension costs – awarding additional pension and early retirement on non ill-health grounds**

If an employer awards additional pension as an annual benefit amount, they pay an additional contribution to the Fund as a single lump sum. The amount is set by guidance issued by the Government Actuary's Department and updated from time to time.

If an employee retires before their normal retirement age on unreduced benefits, employers will be asked to pay additional contributions called strain payments if they arise.

Employers typically make strain payments as a single lump sum, though strain payment invoices may be spread using a payment plan if the administering authority agrees:

#### **3.2 Pension costs – early retirement on ill-health grounds**

If a member retires early because of ill-health, their employer may be required to pay a funding strain (if it arises), which may be a large sum.

To mitigate this, scheduled and admitted bodies may choose to use external insurance. For the avoidance of doubt, local authority schools are not individual employers in the Fund and therefore the option to source external insurance is not to them.

## 4 How does the Fund calculate assets and liabilities?

### 4.1 How are employer asset shares calculated?

The Fund adopts a cashflow approach to track individual employer assets.

Each Fund employer has a notional share of the Fund's assets, which is assessed yearly by the Actuary. The Actuary starts with assets from the previous year-end, adding cashflows paid in/out and investment returns to give a new year-end asset value. The Fund Actuary makes a simplifying assumption that all cashflow and investment returns have been paid uniformly over the year. This assumption means that the sum of all employers' asset values is slightly different from the whole Fund asset total over time. This minimal difference is split between employers in proportion to their asset shares at each valuation.

If an employee moves one from one employer to another existing employer within the Fund, assets equal to the cash equivalent transfer value (CETV) will move from the original employer to the receiving employer's asset share.

Alternatively, if employees move when a new academy is formed or an outsourced contract begins, the Fund Actuary will calculate assets linked to the value of the liabilities transferring.

### 4.2 How are employer liabilities calculated?

The Fund holds membership data for all active, deferred and pensioner members. Based on this data and the assumptions in [Appendix E](#), the Fund Actuary projects the expected benefits for all members into the future. This is expressed as a single value – the liabilities – by allowing for expected future investment returns.

Each employer's liabilities reflect the experience of their own employees and ex-employees.

### 4.3 What is a funding level?

An employer's funding level is the ratio of the market value of their asset share against their liabilities. If this is less than 100%, the employer has a shortfall: the employer's deficit. If it is more than 100%, the employer is in surplus. The amount of deficit or surplus is the difference between the asset value and the liabilities value.

Funding levels and deficit/surplus values measure a particular point in time, based on a particular set of future assumptions. While this measure is of interest, for most employers the main issue is the level of contributions payable. The funding level does not directly drive contribution rates. See section 2 for further information on rates.

## Part B – Employer events

### 5 What happens when an employer joins the Fund?

#### 5.1 When can an employer join the Fund

Employers can join the Fund if they are a new scheduled body or a new admission body. New designated employers may also join the Fund if they pass a designation to do so.

On joining, the Fund will determine the assets and liabilities for that employer within the Fund. The calculation will depend on the type of employer, the existence of any guarantee, and the circumstances of joining.

A contribution rate will also be set. This will be set in accordance with the calculation set out in section 2, unless alternative arrangements apply (for example, the employer has agreed a pass-through arrangement). More details on this are in section 5.4 below.

#### 5.2 New academies

New academies (including free schools) join the Fund as separate scheduled employers. Only active members of former local authority maintained schools transfer to new academies. Free schools do not typically transfer active members from a converting school but must allow new active members to transfer in any eligible service.

Liabilities for transferring active members will be calculated (on the ongoing basis) by the Fund Actuary on the day before conversion to an academy. Liabilities relating to the converting school's former employees (i.e. members with deferred or pensioner status) remain with the ceding council.

New academies will be allocated an asset share based on the estimated funding level of the ceding council's active members, having first allocated the council's assets to fully fund their deferred and pensioner members. This funding level will then be applied to the transferring liabilities to calculate the academy's initial asset share, capped at a maximum of 100%.

The ceding council's estimated funding level will be based on market conditions on the day before conversion. The Fund treats new academies as separate employers in their own right, who are responsible for their allocated assets and liabilities. They won't be pooled with other employers unless the academy is part of a multi-academy trust (MAT) in which case the other MAT schools in the Fund may be pooled such that all academies within a MAT pay the same rate.

The new academies' contribution rate is based on the current funding strategy (set out in section 2) and the transferring membership. Where a new academy joins an existing MAT who has elected to pay a pooled rate, the new academy will pay the pooled MAT rate.

If an academy leaves one MAT and joins another, all active, deferred and pensioner members transfer to the new MAT.

The Fund's policies on academies may change based on updates to guidance from the Ministry of Housing, Communities and Local Government or the Department for Education. Any changes will be communicated and reflected in future funding strategy statements.

#### 5.3 New admission bodies as a results of outsourcing services

New admission bodies usually join the Fund because an existing employer (usually a scheduled body like a council or academy) outsources a service to another organisation (a contractor). This involves TUPE transfers of staff from the letting employer to the contractor. The contractor becomes a new participating Fund employer for the duration of the contract and transferring employees remain eligible for LGPS membership. At the end of the contract, employees typically revert to the letting employer or a replacement contractor.

Liabilities for transferring active members will be calculated by the Fund Actuary on the day before the outsourcing occurs.

New contractors will be allocated an asset share equal to the value of the transferring liabilities. The admission agreement may set a different initial asset allocation, depending on contract-specific circumstances.

There is flexibility for letting employers when it comes to pension risk potentially taken on by the contractor. In particular, the Council will offer an opportunity for pass-through to most contractors bidding for services. Under a pass-through agreement, contractors generally pay a fixed contribution rate and, assuming they have met the terms of the pass-through agreement, will usually not be liable for any deficit or surplus on exiting the Fund. Further details on outsourcing options, including pass-through, are available from the administering authority.

#### **5.4 Other new employers**

There may be other circumstances that lead to a new admission body entering the Fund, e.g. set up of a wholly owned subsidiary company by a local authority. Calculation of assets and liabilities on joining and a contribution rate will be carried out allowing for the circumstances of the new employer.

New designated employers may also join the Fund. These are rare and will be considered on a case-by-case basis.

#### **5.5 Risk assessment for new admission bodies**

Under the LGPS regulations, a new admission body must assess the risks it poses to the Fund if the admission agreement ends early, for example if the admission body becomes insolvent or goes out of business. In practice, the Fund Actuary assesses this because the assessment must be carried out to the administering authority's satisfaction.

After considering the assessment, the letting employer may decide the admission body must provide security such as an indemnity or a bond.

This must cover some or all of 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.

The level and type of security given must also be to the satisfaction of the administering authority.

## 6 Bulk transfer cases will be looked at individually, but generally:

- the Fund won't pay bulk transfers greater in value than either the asset share of the transferring employer in the Fund, or the value of the liabilities of the transferring members, whichever is lower
- the Fund won't grant added benefits to members bringing in entitlements from another Fund, unless the asset transfer is enough to meet the added liabilities
- the Fund may permit shortfalls on bulk transfers if the employer has a suitable covenant and commits to meeting the shortfall in an appropriate period, which may require increased contributions between valuations.

## 7 What happens when an employer leaves the Fund?

### 7.1 What is a cessation event?

Triggers for considering cessation from the Fund are:

- the last active member stops participation in the Fund. The administering authority, at their discretion, can defer acting for up to three years by issuing a suspension notice. That means cessation won't be triggered if the employer takes on one or more active members during the agreed time
- insolvency, winding up or liquidation of the admission body
- a breach of the agreement obligations that isn't remedied to the Fund's satisfaction
- failure to pay any sums due within the period required
- failure to renew or adjust the level of a bond or indemnity, or to confirm an appropriate alternative guarantor
- termination of a deferred debt arrangement (DDA).

If no DDA exists, the administering authority will instruct the Fund Actuary to carry out a cessation valuation to calculate if there is a surplus or a deficit when the employer leaves the scheme.

### 7.2 What happens on cessation?

On cessation from the Fund, the administering authority will commission a cessation valuation from the Actuary to determine the level of whether a surplus or deficit exists.

When carrying out the cessation valuation, the administering authority recognises the balance between protecting the Fund and the potential for being overly prudent. In addition, the Fund acknowledges the long-term and uncertain nature of pension funding. Therefore, for employers exiting the Fund, when considering the amount of assets a ceasing employer must leave behind in the Fund to pay for its members' benefits, the Fund will consider an upper and lower amount (or "corridor"). In other words, an employer will be deemed to have a deficit if the assets are below the lower amount and a surplus if the assets are above the higher amount (ie there will be no deficit or surplus if a ceasing employers assets fall within the "corridor").

If in deficit and the Fund can't recover the required payment in full, unpaid amounts will be paid by any related letting authority (in the case of a ceased admission body) or shared between the other Fund employers. This may require an immediate revision to the rates and adjustments certificate or be reflected in the contribution rates set at the next formal valuation.

If an employer participates in the Fund on a pass through basis, and has settled all outstanding invoices, the Fund will usually commission a cessation valuation confirming no exit debt or credit is owed/due (the corridor approach does not apply).

The Fund Actuary charges a fee for cessation valuations and there may be other cessation expenses. Fees and expenses are at the employer's expense and are deducted from the cessation surplus or added to the cessation deficit. This improves efficiency by reducing transactions between employers and the Fund.

The cessation policy is in [Appendix G](#).

### 7.3 What happens if there is a surplus?

If the cessation valuation shows the exiting employer has more assets than liabilities based on the corridor approach set out in paragraph 7.2 – an exit credit – the administering authority must decide how much will be paid back to the employer based on:

- the surplus amount
- the proportion of the surplus due to the employer's contributions
- any representations (like risk sharing agreements or guarantees) made by the exiting employer and any employer providing a guarantee or some other form of employer assistance/support
- any other relevant factors.

Further information on the Fund's approach to exit credits can be found in the cessation policy in [Appendix G](#).

### 7.4 How do employers repay cessation debts?

If there is a deficit, full payment will usually be expected in a single lump sum or:

- spread over an agreed period, if the employer enters into a deferred spreading agreement (DSA)
- if an exiting employer enters into a DDA, it stays in the Fund and pays contributions until the cessation debt is repaid. Payments are reassessed at each formal valuation.

Further information on the Fund's approach to cessation debuts can be found in the cessation policy in [Appendix G](#).

### 7.5 What if an employer has no active members?

When employers leave the Fund because their last active member has left, they may pay a cessation debt, receive an exit credit or enter a DDA/DSA. Beyond this they have no further obligation to the Fund and either:

- a) their asset share runs out before all ex-employees' benefits have been paid. The other Fund employers will be required to contribute to the remaining benefits. The Fund Actuary will portion the liabilities on a pro-rata basis at formal valuations
- b) the last ex-employee or dependant dies before the employer's asset share is fully run down. The Fund Actuary will apportion the remaining assets to the other Fund employers at formal valuations.

## 8 What are the statutory reporting requirements?

### 8.1 Reporting regulations

The Public Service Pensions Act 2013 requires the Government Actuary's Department to report on LGPS Funds in England and Wales after every three-year valuation, in what's usually called a section 13 report. The report includes advice on whether the following aims are achieved:

- Compliance
- Consistency
- Solvency
- Long term cost efficiency

### 8.2 Solvency

Employer contributions are set at an appropriate solvency level if the rate of contribution targets a funding level of 100% over an appropriate time, using appropriate assumptions compared to other Funds. Either:

- (a) employers collectively can increase their contributions, or the Fund can realise contingencies to target a 100% funding level

or

- (b) there is an appropriate plan in place if there is, or is expected to be, a reduction in employers' ability to increase contributions as needed.

### 8.3 Long-term cost efficiency

Employer contributions are set at an appropriate long-term cost efficiency level if the contribution rate makes provision for the cost of current benefit accrual, with an appropriate adjustment for any surplus or deficit.

To assess this, the administering authority may consider absolute and relative factors.

Relative factors include:

1. comparing LGPS Funds with each other
2. the implied deficit/surplus recovery period
3. the investment return required to achieve full funding after 20 years.

Absolute factors include:

1. comparing Funds with an objective benchmark
2. the extent to which contributions will cover the cost of current benefit accrual and interest on any deficit
3. how the required investment return under relative considerations compares to the estimated future return targeted by the investment strategy
4. the extent to which contributions paid are in line with expected contributions, based on the rates and adjustment certificate
5. how any new deficit recovery plan reconciles with, and can be a continuation of, any previous deficit recovery plan, allowing for Fund experience.

These metrics may be assessed by GAD on a standardised market-related basis where the Fund's actuarial bases don't offer straightforward comparisons.

Standard information about the Fund's approach to solvency of the pension Fund and long-term cost efficiency will be provided in a uniform dashboard format in the valuation report to facilitate comparisons between funds.

## Appendix A – The regulatory framework

### A1 Why do Funds need a funding strategy statement?

The Local Government Pension Scheme (LGPS) regulations require Funds to maintain and publish a Funding Strategy Statement (FSS). According to the Ministry for Housing, Communities and Local Government (MHCLG) the purpose of the FSS is to document the processes the administering authority uses to:

- *establish a clear and transparent Fund-specific strategy identifying how employers' pension liabilities are best met going forward*
- *support the desirability of maintaining as constant and stable primary contribution rate as possible, as defined in Regulation 62(5) of the LGPS Regulations 2013*
- *ensure that the regulatory requirements to set contributions to ensure the solvency and long-term cost efficiency of the Fund are met.*
- *explain how the Fund balances the interests of different employers.*
- *explain how the Fund deals with conflicts of interest and references other policies/strategies.*

To prepare this FSS, the administering authority has used guidance jointly prepared by the Scheme Advisory Board (SAB), MHCLG, and by the Chartered Institute of Public Finance and Accountancy (CIPFA) dated January 2025.

The Fund has a fiduciary duty to scheme members and obligations to employers to administer the scheme competently to keep employer contributions at an affordable level. The funding strategy statement sets out how the Fund meets these responsibilities.

### A2 Consultation

Both the LGPS regulations and most recent CIPFA guidance state the FSS should be prepared in consultation with “*persons the authority considers appropriate*”. This should include ‘*meaningful dialogue... with council tax raising authorities and representatives of other participating employers.*

The consultation process included issuing a draft version to participating employers and inviting employers the opportunity to discuss the FSS and how it applies to their part of the Fund as part of the valuation process.

The Fund also shared the draft FSS with the Department for Education and offered a meeting to discuss the changes made and the implications of the Fund's funding policies on academy employers.

### A3 How is the FSS published?

The FSS is distributed by:

- publishing on the Fund's website
- sending copies to each employer
- including the full statement or summary in the Fund's annual report and accounts
- sending copies to members of the local pension board
- sending copies to the Fund's investment advisers
- making copies freely available on request.

**A4 How does the FSS fit into the overall Fund documentation?**

The FSS is a summary of the Fund's approach to funding liabilities. It isn't exhaustive – the Fund publishes other statements like the statement of investment principles, investment strategy statement, governance strategy and communications strategy. The Fund's annual report and accounts also includes up-to-date Fund information.

The above documentation is available on request.

## Appendix B – Roles and responsibilities

### **B1 The administering authority is required to:**

- 1 operate a pension Fund
- 2 collect employer and employee contributions, investment income and other amounts due to the pension Fund as stipulated in LGPS Regulations
- 3 have an escalation policy in situations where employers fail to meet their obligations
- 4 pay from the pension Fund the relevant entitlements as stipulated in LGPS Regulations
- 5 invest surplus monies in accordance with the relevant regulations
- 6 ensure that cash is available to meet liabilities as and when they fall due
- 7 ensure benefits paid to members are accurate and undertake timely and appropriate action to rectify any inaccurate benefit payments
- 8 take measures as set out in the regulations to safeguard the Fund against the consequences of employer default
- 9 manage the valuation process in consultation with the Fund's Actuary
- 10 prepare and maintain an FSS and associated funding policies and SIP/ISS, after proper consultation with interested parties
- 11 monitor all aspects of the Fund's performance and funding, and amend the FSS/ISS accordingly
- 12 establish a policy around exit payments and payment of exit credits/debits in relation to employer exits
- 13 effectively manage any potential conflicts of interest arising from its dual role as both Fund administrator and scheme employer
- 14 enable the local pension board to review the valuation and FSS review process and as set out in their terms of reference
- 15 support and monitor a Local Pension Board (LPB) as required by the Public Service Pensions Act 2013, the Regulations and the Pensions Regulator's relevant Code of Practice

### **B2 Individual employers are required to:**

- 1 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),
- 2 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
- 3 pay all ongoing contributions, including employer contributions determined by the Actuary and set out in the rates and adjustments certificate, promptly by the due date
- 4 develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework
- 5 make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits and early retirement strain

- 6 notify the administering authority promptly of all changes to active membership that affect future funding
- 7 Pay any exit payments on ceasing participation in the Fund timely 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 inaccuracies in data may result in the employer paying higher contributions than otherwise would be the case if their data was of high quality.

**B3 The Fund Actuary should:**

1. prepare valuations including the setting of employers' contribution rates at a level to ensure Fund solvency and long-term cost efficiency based on the assumptions 26 set by the administering authority and having regard to the FSS and the LGPS Regulations
2. provide advice so the Fund can set the necessary assumptions for the valuation
3. prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit-related matters such as pension strain costs, ill health retirement costs, compensatory added years costs, etc
4. provide advice and valuations to the Fund so that it can make decisions on the exit of employers from the Fund
5. provide advice to the Fund on bonds or other forms of security against the financial effect on the Fund of employer default
6. assist the Fund in assessing whether employer contributions need to be revised between valuations as permitted or required by the regulations
7. ensure that the Fund is aware of any professional guidance or other professional requirements that may be relevant in the role of advising the Fund.
8. Identify to the Fund and manage any potential conflicts of interest that may arise in the delivery the contractual arrangements to the Fund and other clients.

**B4 Local Pension Boards (LPB):**

Local Pension Boards have 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. It will be for each Fund to determine the input into the development of the FSS (as appropriate within Fund's own governance arrangements) however this may include:

1. Assist with the development and review the FSS
2. Review the compliance of scheme employers with their duties under the FSS, regulations and other relevant legislation
3. Assist with the development of and review communications in relation to the FSS.

**B5 Employer guarantors**

- 1 Department for Education - To pay cessation debts in the case of academy cessations (where the obligations are not being transferred to another MAT) and to consider using intervention powers if an academy is deemed to be in breach of the regulations.
- 2 Other bodies with a financial interest in another employer (guarantor to an admitted body) ensure compliance with Regulations and fund policies as they pertain to admission bodies.

**B6 Other parties:**

1. internal and external investment advisers ensure the investment strategy statement (ISS) is consistent with the funding strategy statement
2. investment managers, custodians and bankers play their part in the effective investment and dis-investment of Fund assets in line with the ISS
3. auditors comply with standards, ensure Fund compliance with requirements, monitor and advise on fraud detection, and sign-off annual reports and financial statements
4. governance advisers may be asked to advise the administering authority on processes and working methods
5. internal and external legal advisers ensure the Fund complies with all regulations and broader local government requirements, including the administering authority's own procedures
6. the Ministry for Housing, Communities and Local Government, assisted by the Government Actuary's Department and the Scheme Advisory Board, work with LGPS funds to meet Section 13 requirements.

## Appendix C – Glossary

### **Actuarial certificates**

A statement of the contributions payable by the employer (see also rates and adjustments certificate). The effective date is 12 months after the completion of the valuation.

### **Actuarial valuation**

An investigation by an Actuary, appointed by an Administering Authority into the costs of the scheme and the ability of the Fund managed by that authority to meet its liabilities. This assesses the funding level and recommended employer contribution rates based on estimating the cost of pensions both in payment and those yet to be paid and comparing this to the value of the assets held in the Fund. Valuations take place every three years (triennial).

### **Administering Authority (referred to as ‘the Fund’)**

A body listed in Part 1 of Schedule 3 of the regulations who maintains a Fund within the LGPS and a body with a statutory duty to manage and administer the LGPS and maintain a pension Fund (the Fund). Usually, but not restricted to being, a local authority.

### **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,

### **Code of Practice**

The Pensions Regulator’s General Code of Practice.

### **Debt spreading arrangement**

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

### **Deferred debt agreement**

An agreement for an employer to continue to participate in the LGPS without any contributing scheme members

### **Employer covenant**

The extent of the employer’s legal obligation and financial ability to support its pension scheme now and in the future.

### **Funding level**

The funding level is the value of assets compares with the liabilities. It can be expressed as a ratio of the assets and liabilities (known as the funding level) or as the difference between the assets and liabilities (referred to as a surplus or deficit).

### **Fund valuation date**

The effective date of the triennial Fund valuation.

**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 mean, for instance, that the Fund can consider the employer's covenant to be as strong as its guarantor's.

**Local Pension Board**

The board established to assist the Administering Authority as the Scheme Manager for each Fund.

**Non-statutory guidance**

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

**Notifiable events**

Events which the employer should make the Administering Authority aware of

**Past service liabilities**

The cost of pensions already built up or in payment

**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

**Primary and secondary employer contributions**

Primary employer contributions meet the future costs of the scheme and Secondary employer contributions meet the costs already built up (adjusted to reflect the experience of each scheme employer). Contributions will therefore vary across scheme employers within a Fund.

**Rates and adjustments certificate**

A statement of the contributions payable by each scheme employer (see actuarial certificates)

**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.

## Appendix D – Risks and controls

### D1 Managing risks

The administering authority has a risk management programme to identify and control financial, demographic, regulatory and governance risks.

The role of the local pension board is to assist the Fund in complying with regulations and the requirements of The Pensions Regulator. The local pension board's terms of reference are set out on [modern.gov](#).

Details of the key Fund-specific risks and controls are kept under constant review. An updated risk register is a standing item at Pensions Investments Committee and Pensions Board. It can be found in the public papers from those meetings. Agenda packs including papers can be found at [modern.gov](#).

### D2 Employer covenant assessment and monitoring

Many of the employers participating in the Fund, such as admitted bodies (including TABs and CABs), have no local tax-raising powers. The Fund assesses and monitors the long-term financial health of these employers to assess an appropriate level of risk for each employer's funding strategy.

### D3 Climate risk

The Fund has carried out climate scenario analysis incorporating both stress testing, and narrative-based scenario analysis at the 2025 valuation. The narrative approach explores the complex and interrelated risks associated with climate change by defining a specific extreme, downside risk (in this instance a food shock) and constructing narratives around potential policy and market responses, noting these may be sub-optimal. This approach allows consideration to be given to the impact of sudden, severe downside risks in the short term, the interdependencies that arise and potential immediate actions. Coupling this approach with stress testing (to better understand the impact of possible climate scenarios) has allowed the Fund to assess a range of outcomes that may arise, and assess the resilience of the Fund under these scenarios.

The results show that:

1. When considering climate scenario stress tests, the Fund appears to be generally resilient to different climate scenarios, with generally modest impacts versus the base case modelled
2. The results of the downside, narrative analysis suggest that the Fund is likely to be resilient in the face of some severe downside risk events (in comparison to the base case), but not all.

Climate scenario analysis helps assess risks and tests the resilience of current and long-term strategies under various scenarios and supports informed decision making.

The Fund has an Engagement Policy and Climate Transition to Net Zero Policy.

### D4 Gender Pension Gap reporting

The government published its consultation "Local Government Pension Scheme in England and Wales: Access and Fairness" in May 2025. One of the proposals as part of this consultation was to include gender pension gap reporting in the 2025 valuation report. Regulation around reporting will be laid down in March 2026 and as such, the Fund has reported on the gender pension gap in the 2025 valuation report (appendix 9).

Reporting has been included for active members, pensioner members and by employer using the local government pension scheme funds account return (SF3) categorisation.

## Appendix E – Actuarial assumptions

The key outputs from an employer's funding valuation are its contribution rate requirement (see Section 2 for further details) and its funding level (see Section 4). For both calculations the Fund Actuary requires actuarial assumptions.

The Fund typically reviews and sets the actuarial assumptions used for funding purposes as part of the triennial valuation. Those assumptions are then used until the next triennial valuation (updated for current market conditions where appropriate).

The Fund has reviewed the actuarial assumptions used for funding purposes as part of the 2025 valuation. These are set out below.

### E1 What are assumptions?

Actuarial assumptions are required to value the Fund's liabilities because:

- There is uncertainty regarding both the timing and amount of the future benefit payments (the actual cost can't be known until the final payment is made). Therefore to estimate the cost of benefits earned to date and in the future, assumptions need to be made about the timing and amount of these future benefit payments
- The assets allowed to an employer today are a known figure. However, the future investment return earned on those assets and future cashflows into the Fund are uncertain. An assumption is needed about what those future investment returns will be

There are two types of actuarial assumptions that are needed to perform an actuarial valuation: **financial assumptions** determine the expected amount of future benefit payments and the expected investment return on the assets held to meet those benefits, whilst **demographic assumptions** relate primarily to the expected timing of future benefit payments (i.e. when they are made and for how long).

All actuarial assumptions are set as best estimates of future experience with the exception of the discount rate assumption which is deliberately prudent to meet the regulatory requirement for a 'prudent' valuation.

Any change in the assumptions will affect the value that is placed on future benefit payments ('liabilities'), but different assumptions don't affect the actual benefits the Fund will pay in future.

### E2 What funding bases are operated by the Fund?

A *funding basis* is the set of actuarial assumptions used to value an employer's (past and future service) liabilities. The Fund operates two funding bases for funding valuations: the *ongoing basis* and the *low-risk exit basis*. All actuarial assumptions are the same for both funding bases with the exception of the discount rate – see further details below.

### E3 What financial assumptions are used by the Fund?

#### Discount rate

The discount rate assumption is the average annual rate of future investment return assumed to be earned on an employer's assets from a given valuation date.

The Fund uses a risk-based approach to setting the discount rate which allows for prevailing market conditions on the valuation date (see 'Further detail on the calculation of financial assumptions') and the Fund's investment strategy.

The discount rate is determined by the *prudence level*. Specifically, the discount rate is calculated to be:

The average annual level of future investment return that can be achieved on the Fund's assets over a 20 year period with a x% likelihood.

The prudence level is the likelihood. The prudence levels used by the Fund are as follows:

Funding basis	Prudence level
Ongoing participation	85%
Low-risk exit	85% (lower bound of cessation corridor) 95% (upper bound of cessation corridor)

Further information on the cessation corridor can be found in [Appendix G](#).

### CPI inflation

The CPI inflation assumption is the average annual rate of future Consumer Price Index (CPI) inflation assumed to be observed from a given valuation date. This assumption is required because LGPS benefit increases (in deferment and in payment) and revaluation of CARE benefits are in line with CPI.

The Fund uses a risk-based approach to setting the CPI inflation assumption which allows for prevailing market conditions on the valuation date (see 'Further detail on the calculation of financial assumptions').

The CPI inflation assumption is calculated to be:

*The average annual level of future CPI inflation that will be observed over a 20 year period with a 50% likelihood*

### Salary growth

The salary growth assumption is linked to the CPI inflation assumption via a fixed margin. The salary increases assumption is 1.0% above the CPI inflation assumption plus a promotional salary scale.

### E4 Further detail on the calculation of financial assumptions

The discount rate and CPI inflation assumptions are calculated using a risk-based method. To assess the likelihood associated with a given level of investment return or a given level of future inflation, the Fund Actuary uses Hymans Robertson's propriety economic scenario generator; the *Economic Scenario Service (or ESS)*. The model uses statistical distributions to project a range of 5,000 different possible outcomes for the future behaviour of different asset classes and wider economic variables, such as inflation.

The table below shows the calibration of the model as at 31 March 2025 for some sample asset classes and economic variables. All returns are shown net of fees and are the annualised total returns over 5, 10 and 20 years. Yields and inflation refer to the simulated yields at that time horizon.

**Table: Summary of assumptions underlying the ESS, 31 March 2025**

	Annualised total returns								Economic Variables				
		Cash	Index Linked Gilts (medium)	Fixed Interest Gilts (medium)	UK Equity	Developed World ex UK Equity	Property	CorpMedium A	Inflation (RPI)	17 year real yield (RPI)	Inflation (CPI)	17 year real yield (CPI)	17 year yield
5 years	16th %'ile	3.5%	1.7%	2.2%	0.1%	-0.5%	0.2%	2.5%	2.2%	1.4%	1.2%	1.5%	4.8%
	50th %'ile	4.3%	4.5%	4.3%	8.2%	8.2%	6.8%	4.9%	3.8%	2.4%	2.8%	2.4%	5.8%
	84th %'ile	5.1%	7.5%	6.2%	16.4%	16.9%	14.1%	7.1%	5.3%	3.3%	4.3%	3.3%	7.1%
10 years	16th %'ile	3.6%	2.7%	4.2%	2.5%	2.1%	2.3%	4.5%	1.3%	0.8%	0.8%	0.8%	3.9%
	50th %'ile	4.6%	4.7%	5.4%	8.6%	8.5%	7.3%	6.0%	3.0%	2.1%	2.5%	2.1%	5.3%
	84th %'ile	5.8%	6.9%	6.5%	14.6%	14.8%	12.7%	7.3%	4.6%	3.3%	4.1%	3.3%	7.1%
20 years	16th %'ile	3.1%	2.9%	5.0%	3.8%	3.7%	3.5%	5.5%	1.0%	-0.5%	0.7%	-0.5%	1.6%
	50th %'ile	4.5%	4.6%	5.8%	8.4%	8.3%	7.3%	6.5%	2.5%	1.2%	2.3%	1.3%	3.6%
	84th %'ile	6.3%	6.4%	6.5%	12.9%	13.1%	11.3%	7.4%	4.2%	3.0%	3.9%	3.0%	6.2%
	Volatility (Disp) (1 yr)	0%	7%	5%	16%	19%	15%	7%	1%		1%		

The ESS model is recalibrated monthly. The Fund Actuary uses the most recent calibration of the model (prior to the valuation date) to set financial assumptions for each funding valuation.

#### **E5 What demographic assumptions were used?**

The Fund uses advice from Club Vita to set demographic assumptions, as well as analysis and judgement based on the Fund's experience.

Demographic assumptions vary by type of member, so each employer's own membership profile is reflected in the assumptions that apply to them.

#### **Life expectancy**

The longevity assumptions are a bespoke set of VitaCurves produced by detailed analysis and tailored to fit the Fund's membership profile.

Allowance has been made for future improvements to mortality, in line with the 2024 version of the continuous mortality investigation (CMI) model published by the actuarial profession. The core parameters of the model apply, however, the starting point has been adjusted by +0.25% (for males and females) to reflect the difference between the population-wide data used in the CMI and LGPS membership. A long-term rate of mortality improvements of 1.5% pa applies.

### Other demographic assumptions

Retirement in normal health	Members are assumed to retire at the earliest age possible with no pension reduction.
Promotional salary increases	Sample increases below
Death in service	Sample rates below
Withdrawals	Sample rates below
Retirement in ill health	Sample rates below
Family details	A varying proportion of members are assumed to have a dependant partner at retirement or on earlier death. At age 65 this is assumed to be 55% for males and 54% for females). Dependant of a male is 3.5 years younger than him Dependent of a female is 0.6 years older than her.
Commutation	70% of maximum under HMRC limits.
50:50 option	Members continue to participate in their current scheme

### Males

Incidence per 1000 active members per year									
Age	Salary scale	Death before retirement		Withdrawals		Ill-health tier 1		Ill-health tier 2	
		FT &PT	FT	PT	FT	PT	FT	PT	
20	105	0.17	388.14	548.78	0.00	0.00	0.00	0.00	
25	117	0.17	256.38	362.49	0.00	0.00	0.00	0.00	
30	131	0.20	181.91	257.16	0.00	0.00	0.00	0.00	
35	144	0.24	142.13	200.90	0.10	0.07	0.02	0.01	
40	151	0.41	114.43	161.69	0.16	0.12	0.03	0.02	
45	159	0.68	107.48	151.85	0.35	0.27	0.07	0.05	
50	167	1.09	88.60	125.03	0.90	0.68	0.23	0.17	
55	173	1.70	69.77	98.51	3.54	2.65	0.51	0.38	
60	174	3.06	62.19	87.76	6.23	4.67	0.44	0.33	
65	174	5.10	38.17	53.87	11.83	8.87	-	-	

### Females

Incidence per 1000 active members per year									
Age	Salary scale	Death before retirement		Withdrawals		Ill-health tier 1		Ill-health tier 2	
		FT &PT	FT	PT	FT	PT	FT	PT	
20	105	0.10	338.33	373.90	0.00	0.00	0.00	0.00	
25	117	0.10	227.65	251.55	0.10	0.07	0.02	0.01	
30	131	0.14	190.83	210.83	0.13	0.10	0.03	0.02	
35	144	0.24	164.70	181.90	0.26	0.19	0.05	0.04	
40	151	0.38	137.08	151.34	0.39	0.29	0.08	0.06	
45	159	0.62	127.92	141.21	0.52	0.39	0.10	0.08	
50	167	0.90	107.85	118.92	0.97	0.73	0.24	0.18	

55	173	1.19	80.47	88.83	3.59	2.69	0.52	0.39
60	174	1.52	64.85	71.50	5.71	4.28	0.54	0.40
65	174	1.95	30.91	34.07	10.26	7.69	-	-

### **E5 What assumptions apply in a cessation valuation following an employer's exit from the Fund?**

#### **Low-risk exit basis**

The discount rate used for calculating the exit position will be lower, on a low-risk basis than the ongoing funding basis, specifically additional prudence will be applied to the assumption. This will be applied via a higher likelihood that the Fund's assets will achieve the required future investment returns over the 20 years following the date of the calculation.

The CPI assumption is based on Hymans Robertson's ESS model.

When the "corridor" approach (as described in Section 7.2) is being used to determine the final cessation valuation, an upper and lower amount is required. The Actuary will calculate these amounts by changing the discount rate to reflect the fund's views of the maximum and minimum amount of assets required to pay for the benefits of the ceasing employer's members and will represent the bounds of the corridor. As above, these two values will be based on the likelihood of the Fund's assets achieving certain future investment returns over the 20 years

## Appendix F – Policy on contribution reviews

Effective date of policy	1 April 2026
Date approved	
Next review	31 March 2028

### 1 Introduction

The purpose of this policy is to set out the administering authority's approach to reviewing contribution rates between triennial valuations.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate.

#### 1.1 Aims and objectives

The administering authority's aims and objectives related to this policy are as follows:

- To provide employers with clarity around the circumstances where contribution rates may be reviewed between valuations.
- To outline specific circumstances where contribution rates will not be reviewed.

#### 1.2 Background

The Fund may amend contribution rates between valuations for 'significant change' to the liabilities or covenant of an employer.

Such reviews may be instigated by the fund or at the request of a participating employer.

Any review may lead to a change in the required contributions from the employer.

#### 1.3 Guidance and regulatory framework

[Regulation 64](#) of the Local Government Pension Scheme Regulations 2013 (as amended) sets out the way in which LGPS funds should determine employer contributions, including the following;

- Regulation 64 (4) – allows the administering authority to review the contribution rate if it becomes likely that an employer will cease participation in the fund, with a view to ensuring that the employer is fully funded at the expected exit date.
- Regulation 64A - sets out specific circumstances where the administering authority may revise contributions between valuations (including where a review is requested by one or more employers).

This policy also reflects [statutory guidance](#) from the Ministry of Housing, Communities and Local Government (MHCLG) on preparing and maintaining policies relating to the review of employer contributions. Interested parties may want to refer to an accompanying [guide](#) that has been produced by the Scheme Advisory Board as well as the [letter](#) from MHCLG to all Administering Authorities regarding Government's intention to consult on changes to the Regulations as they apply to revision of contribution rates.

## 2 Statement of principles

This statement of principles covers review of contributions between valuations. Each case will be treated on its own merits, but in general:

- The administering authority reserves the right to review contributions in line with the provisions set out in the LGPS Regulations.
- The decision to make a change to contribution rates rests with the administering authority, subject to consultation with employers during the review period.
- Full justification for any change in contribution rates will be provided to employers.
- Advice will be taken from the fund actuary in respect of any review of contribution rates.
- Any revision to contribution rates will be reflected in the Rates & Adjustment certificate.

## 3 Policy

### 3.1 Circumstances for review

The fund would consider the following circumstances as a potential trigger for review:

- in the opinion of an administering authority there are circumstances which make it likely that an employer (including an admission body) will become an exiting employer sooner than anticipated at the last valuation;
- an employer is approaching exit from the fund within the next two years and before completion of the next triennial valuation;
- there are changes to the benefit structure set out in the LGPS Regulations which have not been allowed for at the last valuation;
- it appears likely to the administering authority that the amount of the liabilities arising or likely to arise for an employer or employers has changed significantly since the last valuation;
- it appears likely to the administering authority that there has been a significant change in the ability of an employer or employers to meet their obligations (e.g. a material change in employer covenant, or provision of additional security);
- it appears to the administering authority that the membership of the employer has changed materially such as bulk transfers, significant reductions to payroll or large-scale restructuring; or
- where an employer has failed to pay contributions or has not arranged appropriate security as required by the administering authority.

### 3.2 Employer requests

The administering authority will also consider a request from any employer to review contributions where the employer has undertaken to meet the costs of that review and sets out the reasoning for the review (which would be expected to fall into one of the above categories, such as a belief that their covenant has changed materially, or they are going through a significant restructuring impacting their membership).

The administering authority will require additional information to support a contribution review made at the employer's request. The specific requirements will be confirmed following any request and this is likely to include the following:

- a copy of the latest accounts;
- details of any additional security being offered (which may include insurance certificates);
- budget forecasts; and/or
- information relating to sources of funding.

The costs incurred by the administering authority in carrying out a contribution review (at the employer's request) will be met by the employer. These will be confirmed upfront to the employer prior to the review taking place.

### **3.3 Other employers**

When undertaking any review of contributions, the administering authority will also consider the impact of a change to contribution rates on other fund employers. This will include the following factors:

- The existence of a guarantor.
- The amount of any other security held.
- The size of the employer's liabilities relative to the whole fund.

The administering authority will consult with other fund employers as necessary.

### **3.4 Effect of market volatility**

Except in circumstances such as an employer nearing cessation, the administering authority will not consider market volatility or changes to asset values as a basis for a change in contributions outside a formal valuation.

### **3.5 Documentation**

Where revisions to contribution rates are necessary, the fund will provide the employer with a note of the information used to determine these, including:

- Explanation of the key factors leading to the need for a review of the contribution rates, including, if appropriate, the updated funding position.
- A note of the new contribution rates and effective date of these.
- Date of next review.
- Details of any processes in place to monitor any change in the employer's circumstances (if appropriate), including information required by the administering authority to carry out this monitoring.

The Rates & Adjustments certificate will be updated to reflect the revised contribution rates.

## **4 Related Policies**

The fund's approach to setting employer contribution rates is set out in the Funding Strategy Statement, specifically "Section 2 – How does the fund calculate employer contributions?".

## Appendix G – Policy on cessations

Effective date of policy	1 April 2026
Date approved	
Next review	31 March 2028

### 1 Introduction

The purpose of this policy is to set out the administering authority's approach to dealing with circumstances where a scheme employer leaves the fund and becomes an exiting employer (a cessation event).

It should be noted that this policy is not exhaustive. Each cessation will be treated on a case-by-case basis, however certain principles will apply as governed by the regulatory framework (see below) and the fund's discretionary policies (as described in section 3 - Policies).

#### 1.1 Aims and Objectives

The administering authority's aims and objectives related to this policy are as follows:

- To confirm the approach for the treatment and valuation of liabilities for employers leaving the fund.
- To provide information about how the fund may apply its discretionary powers when managing employer cessations.
- To outline the responsibilities of (and flexibilities for) exiting employers, the administering authority, the actuary and, where relevant, the original ceding scheme employer (usually a letting employer).

#### 1.2 Background

As described in section 7 of the Funding Strategy Statement (FSS), a scheme employer may become an exiting employer when a cessation event is triggered (e.g. when the last active member stops participating in the fund). On cessation from the fund, the administering authority will instruct the fund actuary to carry out a valuation of assets and liabilities for the exiting employer to determine whether a deficit or surplus exists. The fund has full discretion over the repayment terms of any deficit, and the extent to which any surplus results in the payment of an exit credit.

#### 1.3 Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 (as amended) contain relevant provisions regarding employers leaving the fund ([Regulation 64](#)) and include the following:

- Regulation 64 (1) – this regulation states that, where an employing authority ceases to be a scheme employer, the administering authority is required to obtain an actuarial valuation of the liabilities of current and former employees as at the termination date. Further, it requires the Rates & Adjustments Certificate to be amended to show the revised contributions due from the exiting employer
- Regulation 64 (2) – where an employing authority ceases to be a scheme employer, the administering authority is required to obtain an actuarial valuation of the liabilities of current and former employees as at the exit date. Further, it requires the Rates & Adjustments Certificate to be amended to show the exit payment due from the exiting employer or the excess of assets over the liabilities in the fund.

- Regulation 64 (2ZAB) – the administering authority must determine the amount of an exit credit, which may be zero, taking into account the factors specified in paragraph (2ZC) and must:
  - a) Notify its intention to make a determination to-
    - (i) The exiting employer and any other body that has provided a guarantee to the Exiting Employer
    - (ii) The scheme employer, where the exiting employer is a body that participated in the Scheme as a result of an admission agreement
  - b) Pay the amount determined to that exiting employer within six months of the exit date, or such longer time as the administering authority and the exiting employer agree.
  
- Regulation (2ZC) – In exercising its discretion to determine the amount of any exit credit, the administering authority must have regard to the following factors-
  - a) The extent to which there is an excess of assets in the fund relating to that employer in paragraph (2)(a)
  - b) The proportion of this excess of assets which has arisen because of the value of the employer's contributions
  - c) Any representations to the administering authority made by the exiting employer and, where that employer participates in the scheme by virtue of an admission agreement, any body listed in paragraphs (8)(a) to (d)(iii) of Part 3 to Schedule 2 of the Regulations: and
  - d) Any other relevant factors
  
- Regulation 64 (2A) & (2B)– the administering authority, at its discretion, may issue a suspension notice to suspend payment of an exit amount for up to three years, where it reasonably believes the exiting employer is to have one or more active members contributing to the fund within the period specified in the suspension notice.
  
- Regulation 64 (3) – in instances where it is not possible to obtain additional contributions from the employer leaving the Fund or from the bond/indemnity or guarantor, the contribution rate(s) for the appropriate scheme employer or remaining fund employers may be amended.
  
- Regulation 64 (4) – where it is believed a scheme employer may cease at some point in the future, the administering authority may obtain a certificate from the fund actuary revising the contributions for that employer, with a view to ensuring that the assets are expected to be broadly equivalent to the exit payment that will be due.
  
- Regulation 64 (5) – following the payment of an exit payment to the Fund, no further payments are due to the fund from the exiting employer.
  
- Regulation 64 (7A-7G) – the administering authority may enter into a written deferred debt agreement, allowing the employer to have deferred employer status and to delay crystallisation of debt despite having no active members.
  
- Regulation 64B (1) – the administering authority may set out a policy on spreading exit payments.

In addition to the 2013 Regulations summarised above, [Regulation 25A](#) of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (“the Transitional Regulations”) give the fund the ability to levy a cessation debt on employers who have ceased participation in the fund (under the previous regulations) but for whom a cessation valuation was not carried out at the time. This policy document describes how the fund expects to deal with any such cases.

This policy also reflects [statutory guidance](#) from the Department for Levelling Up, Housing and Communities on preparing and maintaining policies relating to employer exits. Interested parties may want to refer to an accompanying [guide](#) that has been produced by the Scheme Advisory Board.

These regulations relate to all employers in the fund.

## 2 Statement of Principles

This Statement of Principles covers the fund's approach to exiting employers. Each case will be treated on its own merits but in general:

- it is the fund's policy that the determination of any surplus or deficit on exit should aim to minimise, as far as is practicable, the risk that the remaining, unconnected employers in the fund having to make contributions in future towards meeting the past service liabilities of current and former employees of employers leaving the fund.
- the fund's preferred approach is to request the full payment of any exit debt (an exit payment), which is calculated by the actuary on the appropriate basis (as per section 7 of the FSS and section 3.1 below). This would extinguish any liability to the fund by the exiting employer.
- the fund's key objective is to protect the interests of the fund, which is aligned to protecting the interests of the remaining employers. A secondary objective is to consider the circumstances of the exiting employer in determining arrangements for the recovery of the exit debt.

## 3 Policies

On cessation, the administering authority will instruct the fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus as defined in section 4.3 of the FSS.

Where there is a deficit, payment of this amount in full would normally be sought from the exiting employer.

However, the fund will consider written requests from employers to spread the payment over an agreed period, in the exceptional circumstance where payment of the debt in a single immediate lump sum could be shown by the employer to be materially detrimental to the employer's financial situation (see [3.2 Repayment flexibility on exit payments](#) below). The fund will normally require security covering any outstanding debt for the entirety of the agreed period.

In circumstances where there is a surplus, the administering authority will determine, at its sole discretion, the amount of exit credit (if any) to be paid to the exiting employer (see [3.3 Exit credits](#) below).

### 3.1 Approach to cessation calculations

Cessation valuations are carried out on a case-by-case basis at the sole discretion of the fund depending on the exiting employer's circumstances. However, in general the following broad principles and assumptions may apply, as described in section 7.2 of the FSS and summarised below:

Local Authorities	Low risk basis <sup>1</sup>	Shared between other fund employers
Further & Higher Education Colleges	Low risk basis	Shared between other fund employers

Academies	Low risk basis	DfE guarantee may apply, otherwise see below
Admission bodies (TABs)	Low risk basis <sup>2</sup>	Letting authority (where applicable), otherwise shared between other fund employers
Admission bodies (CABs)	Low risk basis <sup>2</sup>	Shared between other fund employers (if no guarantor exists)
Designating employers	Low risk basis	Shared between other fund employers (if no guarantor exists)

<sup>1</sup>Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (e.g. machinery of Government changes), these cessation principles would apply.

<sup>2</sup>The fund will consider any guarantees provided by other fund employers. Where an explicit guarantee exists, an exit debt would usually not be charged unless the employer had a deficit on the ongoing basis rather than low-risk basis.

### **Risk Based cessation approach**

The fund uses a risk-based approach to set employer funding strategy, including within cessation calculations. In particular, the likelihood of the fund's assets achieving particular future investment returns is analysed.

Where appropriate, the fund will use this approach to set an upper and lower amount (or "corridor") in order to consider the amount of assets a ceasing employer must leave behind to pay for its members' benefits.

Under this approach, an employer is deemed to have a deficit if its assets are below the lower amount and a surplus if its assets are above the higher amount (ie there will be no deficit or surplus if a ceasing employer's assets fall within the corridor).

### **Cessation of academies and multi-academy trusts (MATs)**

A cessation event will occur if a current academy or MATs cease to exist as an entity or an employer in the fund.

The cessation treatment will depend on the circumstances:

- If the cessation event occurs due to an academy or MAT merging with another academy or MAT within the fund, all assets and liabilities from each of the merging entities will be combined and will become the responsibility of the new merged entity.
- If the MAT is split into more than one new or existing employers within the fund, the actuary will calculate a split of the assets and liabilities to be transferred from the exiting employer to the new employers. The actuary will use their professional judgement to determine an appropriate and fair methodology for this calculation in consultation with the administering authority.
- In all other circumstances, and following payment of any cessation debt, section 7.5 of the FSS would apply.

### 3.2 Repayment flexibility on exit payments

#### Deferred spreading arrangement (DSA)

The fund will consider written requests from exiting employers to spread an exit payment over an agreed period, in the exceptional circumstance where payment of the debt in a single immediate lump sum could be shown by the employer to be materially detrimental to the employer's financial situation.

In this exceptional case, the fund's policy is:

- The agreed spread period is no more than three years, but the fund could use its discretion to extend this period in extreme circumstances.
- The fund may consider factors such as the size of the exit payment and the financial covenant of the exiting employer in determining an appropriate spreading period.
- The exiting employer may be asked to provide the administering authority with relevant financial information such as a copy of its latest accounts, sources of funding, budget forecasts, credit rating (if any) etc. to help in this determination.
- Payments due under the DSA may be subject to an interest charge.
- The fund will only consider written requests within six months of the employer exiting the fund.
- The Fund would take into account the amount of any security offered and seek actuarial, covenant and legal advice in all cases.
- A legal document, setting out the terms of the exit payment agreement, would be prepared by the fund and signed by all relevant parties prior to the payment agreement commencing.
- The terms of the legal document should include reference to the spreading period, the annual payments due, interest rates applicable, other costs payable and the responsibilities of the exiting employer during the exit spreading period.
- Any breach of the agreed payment plan would require payment of the outstanding cessation amount immediately.

#### Deferred debt agreement (DDA)

The fund's preferred policy is for the spreading of payments, as detailed above, to be followed in the exceptional circumstances where an exiting employer is unable to pay the required cessation payment as a lump sum in full. However, the fund may also allow a DDA as described in [Regulation 64 \(7A\)](#) on a case by case basis.

The employer must meet all requirements on scheme employers and pay the secondary rate of contributions as determined by the Fund actuary until the termination of the DDA.

The administering authority may consider a DDA in the following circumstances:

- The employer requests the fund consider a DDA.
- The employer is expected to have a deficit if a cessation valuation was carried out.
- The employer is expected to be a going concern.
- The covenant of the employer is considered sufficient by the administering authority.

The administering authority will normally require:

- A legal document to be prepared, setting out the terms of the DDA and signed by all relevant parties prior to the arrangement commencing.(including details of the time period of the DDA, the annual payments due, the frequency of review and the responsibilities of the employer during the period).
- Relevant financial information for the employer such as a copy of its latest accounts, sources of funding, budget forecasts, credit rating (if any) to support its covenant assessment.
- Security be put in place covering the employer's deficit on their cessation basis and the fund will seek actuarial, covenant and legal advice in all cases.
- Regular monitoring of the contribution requirements and security requirements
- All costs of the arrangement are met by the employer, such as the cost of advice to the fund, ongoing monitoring or the arrangement and correspondence on any ongoing contribution and security requirements.

A DDA will normally terminate on the first date on which one of the following events occurs:

- The employer enrolls new active fund members.
- The period specified, or as varied, under the DDA elapses.
- The take-over, amalgamation, insolvency, winding up or liquidation of the employer.
- The administering authority serves a notice on the employer that the Administering Authority is reasonably satisfied that the employer's ability to meet the contributions payable under the DDA has weakened materially or is likely to weaken materially in the next 12 months.
- The Fund actuary assesses that the employer has paid sufficient secondary contributions to cover all (or almost all) of the exit payment due if the employer becomes an exiting employer on the calculation date (i.e. employer is now largely fully funded on their low risk basis).
- The Fund actuary assesses that the employer's value of liabilities has fallen below an agreed *de minimis* level and the employer becomes an exiting employer on the calculation date.
- The employer requests early termination of the agreement and settles the exit payment in full as calculated by the fund actuary on the calculation date (i.e. the employer pays their outstanding cessation debt on their cessation basis).

On the termination of a DDA, the employer will become an exiting employer and a cessation valuation will be completed in line with this policy.

### **3.3 Exit credits**

The administering authority's entitlement to determine whether exit credits are payable in accordance with these provisions shall apply to all employers ceasing their participation in the fund after 14 May 2018. This provision therefore is retrospectively effective to the same extent as provisions of the [Local Government Pension Scheme \(Amendment\) Regulations 2020](#).

The administering authority may determine the amount of exit credit payable to be zero, however, in making a determination, the administering authority will take into account the following factors.

- a) the extent to which there is an excess of assets in the fund relating to the employer over and above the liabilities specified.
- b) the proportion of the excess of assets which has arisen because of the value of the employer's contributions.

- c) any representations to the administering authority made by the exiting employer, guarantor, ceding scheme employer (usually the letting employer) or by a body which owns, funds or controls the exiting employer; or in some cases, the Secretary of State.
- d) any other relevant factors.

**Admitted bodies**

- i. No exit credit will normally be payable in respect of admissions who joined the fund before 14 May 2018 unless it is subject to a risk sharing arrangement as per paragraph iii) below. Prior to this date, the payment of an exit credit was not permitted under the Regulations and this will have been reflected in the commercial terms agreed between the admission body and the letting authority/awarding authority/ceding employer. This will also apply to any pre-14 May 2018 admission which has been extended or 'rolled over' beyond the initial expiry date and on the same terms that applied on joining the fund.
- ii. No exit credit will normally be payable to any admission body who participates in the fund via a pass-through approach.
- iii. The fund will make an exit credit payment in line with any contractual or risk sharing agreements which specifically covers the ownership of exit credits/cessation surpluses or if the admission body and letting authority have agreed any alternative approach (which is consistent with the Regulations and any other legal obligations). This information, which will include which party is responsible for which funding risk, must be presented to the fund in a clear and unambiguous document with the agreement of both the admission body and the letting authority/awarding authority/ceding employer and within one month (or such longer time as may be agreed with the administering authority) of the admission body ceasing participation in the fund.
- iv. In the absence of this information or if there is any dispute from either party with regards interpretation of contractual or risk sharing agreements as outlined in c), the fund will withhold payment of the exit credit until such disputes are resolved and the information is provided to the administering authority.
- v. Where a guarantor arrangement is in place, but no formal risk-sharing arrangement exists, the fund will consider how the approach to setting contribution rates payable by the admission body during its participation in the fund reflects which party is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.
- vi. If the admission agreement ends early, the fund will consider the reason for the early termination, and whether that should have any relevance on the fund's determination of the value of any exit credit payment. In these cases, the fund will consider the differential between employers' contributions paid (including investment returns earned on these monies) and the size of any cessation surplus.
- vii. If an admitted body leaves has a surplus on the low-risk basis, then an exit credit will normally be paid to the employer.
- viii. The decision of the fund is final in interpreting how any arrangement described under iii), v), vi) and vii) applies to the value of an exit credit payment.

**Scheduled bodies and designating bodies**

- i. Where a guarantor arrangement is in place, but no formal risk-sharing arrangement exists, the fund will consider how the approach to setting contribution rates payable by the employer during its participation in the fund reflects which party is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.

- ii. Where no formal guarantor or risk-sharing arrangement exists, the fund will consider how the approach to setting contribution rates payable by the employer during its participation in the fund reflects the extent to which it is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.
- iii. The decision of the fund is final in interpreting how any arrangement described under i) and ii) applies to the value of an exit credit payment.
- iv. If a scheduled body or designating body becomes an exiting employer due to a reorganisation, merger or take-over, then no exit credit will normally be paid.
- v. If a scheduled body or resolution body leaves on a low-risk basis (because no guarantor is in place), then any exit credit will normally be paid in full to the employer.

### **General**

- i. The fund will advise the exiting employer as well as the letting authority and/or other relevant scheme employers of its decision to make an exit credit determination under Regulation 64.
- ii. Subject to any risk sharing or other arrangements and factors discussed above, when determining the cessation funding position the fund will generally make an assessment based on the value of contributions paid by the employer during their participation, the assets allocated when they joined the fund and the respective investment returns earned on both.
- iii. The fund will also factor in if any contributions due or monies owed to the fund remain unpaid by the employer at the cessation date. If this is the case, the fund's default position will be to deduct these from any exit credit payment.
- iv. The final decision will be made by the Section 151 officer, in conjunction with advice from the fund's actuary and/or legal advisors where necessary, in consideration of the points held within this policy.
- v. The fund accepts that there may be some situations that are bespoke in nature and do not fall into any of the categories above. In these situations the fund will discuss its approach to determining an exit credit with all affected parties. The decision of the fund in these instances is final.
- vi. The guidelines above at point v) in the 'Admitted bodies' section, and at points i) and ii) in the 'Scheduled bodies and designating bodies' section, make reference to the Fund 'considering the approach to setting contribution rates during the employer's participation'. The different funding approaches, including the parameters used and how these can vary based on employer type, are covered in detail in Table 2 (section 2.2) in the FSS. Considering the approach taken when setting contribution rates of the exiting employer may help the fund to understand the extent to which the employer is responsible for funding the underlying liabilities on exit. For example, if contribution rates varied over an employer's participation in order to repair a deficit or surplus, this could be interpreted as the employer being responsible for deficit or surpluses on exit. For the avoidance of doubt, each exiting employer will be considered in the round alongside the other factors mentioned above.
- vii. None of the above should be considered as fettering the fund's discretionary decision, instead it is an indication of how decisions are likely to be made. However, it is important to bear in mind that each and every potential exit credit case will be considered by the administering authority on its own merits, and the administering authority will make its discretionary decision on that basis.

**Disputes**

In the event of any dispute or disagreement on the amount of any exit credit paid and the process by which that has been considered, the appeals and adjudication provisions contained in Regulations 74-78 of the LGPS Regulations 2013 would apply.

## 4 Practicalities and process

### 4.1 Responsibilities of ceasing employers

An employer which is aware that its participation in the fund is likely to come to an end must:

- advise the fund, in writing, of the likely ending of its participation (either within the terms of the admission agreement in respect of an admission body (typically a 3 month notice period is required) or otherwise as required by the Regulations for all other scheme employers). It should be noted that this includes closed employers where the last employee member is leaving (whether due to retirement, death or otherwise leaving employment).
- provide any relevant information on the reason for leaving the Fund and, where appropriate, contact information in the case of a take-over, merger or insolvency.
- provide all other information and data requirements as requested by the administering authority which are relevant, including in particular any changes to the membership which could affect the liabilities (e.g. salary increases and early retirements) and an indication of what will happen to current employee members on cessation (e.g. will they transfer to another fund employer, will they cease to accrue benefits within the fund, etc.).

### 4.2 Responsibilities of Administering Authority

The administering authority will:

- gather information as required, including, but not limited to, the following:
  - details of the cessation - the reason the employer is leaving the fund (i.e. end of contract, insolvency, merger, machinery of government changes, etc.) and any supporting documentation that may have an effect on the cessation.
  - complete membership data for the outgoing employer and identify changes since the previous formal valuation.
  - the likely outcome for any remaining employee members (e.g. will they be transferred to a new employer, or will they cease to accrue liabilities in the fund).
- identify the party that will be responsible for the employer's deficit on cessation (i.e. the employer itself, an insurance company, a receiver, another fund employer, guarantor, etc.).
- commission the fund actuary to carry out a cessation valuation under the appropriate regulation.
- where applicable, discuss with the employer the possibility of paying adjusted contribution rates that target a 100% funding level by the date of cessation through increased contributions in the case of a deficit on the cessation basis or reduced contributions in respect of a surplus.
- where applicable, liaise with the original ceding employer or guarantor and ensure it is aware of its responsibilities, in particular for any residual liabilities or risk associated with the outgoing employer's membership.
- having taken actuarial advice, notify the employer and other relevant parties in writing of the payment required in respect of any deficit on cessation and pursue payment.

### Payment of an exit credit

- If the actuary determines that there is an excess of assets over the liabilities at the cessation date, the administering authority will act in accordance with the exit credit policy above. If payment is required, the administering authority will advise the exiting employer of the amount due to be repaid and seek to make payment within six months of the exit date. However, in order to meet the six month timeframe, the administering authority requires prompt notification of an employers' exit and all data requested to be provided in a timely manner. The administering authority is unable to make any exit credit payment until it has received all data requested.
- At the time this policy was produced, the fund has been informed by HMRC that exit credits are not subject to tax, however all exiting employers must seek their own advice on the tax and accounting treatment of any exit credit.

### 4.3 Responsibilities of the actuary

Following commission of a cessation valuation by the administering authority, the fund actuary will:

- calculate the surplus or deficit attributable to the outgoing employer on an appropriate basis, taking into account the principles set out in this policy.
- provide actuarial advice to the administering authority on how any cessation deficit should be recovered, giving consideration to the circumstances of the employer and any information collected to date in respect to the cessation.
- where appropriate, advise on the implications of the employer leaving on the remaining fund employers, including any residual effects to be considered as part of triennial valuations.

## 5 Related Policies

The fund's approach to exiting employers is set out in the FSS, specifically "Section 7 – What happens when an employer leaves the fund?"

The approach taken to set the actuarial assumptions for cessation valuations is set out in Appendix D of the FSS.