

Funding Strategy Statement Consultation Summary

This paper is addressed to Leicestershire County Council, in its capacity as Administering Authority of the Leicestershire County Council Pension Fund (“the Fund”). It has been prepared for the purpose of providing a summary of the consultation on the Fund’s draft Funding Strategy Statement (“the FSS”) which forms part of the stakeholder engagement at the 2025 triennial funding valuation (“the valuation”).

This paper has not been prepared for use for any other purpose and should not be so used. The paper should not be disclosed to any third party except as required by law or regulatory obligation or with our prior written consent. We accept no liability where the paper is used by or disclosed to a third party unless we have expressly accepted such liability in writing. Where this is permitted, the paper may only be released or otherwise disclosed in a complete form which fully discloses our advice and the basis on which it is given.

Funding Strategy Statement (FSS)

Under LGPS Regulations, all funds have a statutory obligation to produce an FSS. It is a key document for the Fund, in two ways:

- 1 *The inputs it requires:* the Fund’s officers and Pensions Committee need to go through a process to be satisfied that the Fund is managing funding risks and will be collecting an appropriate level of contributions from all employers in the Fund. The FSS provides a helpful framework for organising this process and covering all the necessary areas.
- 2 *The outputs it gives:* the finalised FSS itself should be a clear and transparent reference point for the Fund’s stakeholders, to set out how the Fund manages funding risks and provide proof that the contribution arrangements are solidly derived, fair and consistent. It will also help in any future discussions with employers, perhaps where an approach is queried or questions are raised.

The FSS is prepared in collaboration with the Fund Actuary and forms an integral part of the framework within which to carry out the triennial valuation to set employer contributions. The FSS also outlines how the funding strategy fits in with the investment strategy.

The current FSS was approved by the Pensions Committee at the 2022 valuation and is published on the Fund’s website [here](#).

2025 FSS review

In January 2025, updated [guidance](#) for preparing and maintain a FSS was published by the Ministry of Housing, Communities and Local Government (“MHCLG”), the Scheme Advisory Board’s (“SAB”s’) Compliance and Reporting Committee and the Chartered Institute of Public Finance and Accountancy (“CIPFA”). The updated guidance replaces 2016 guidance produced by CIPFA.

The FSS and policy documents at the 2022 valuation were broadly in line with the new FSS guidance requirements and therefore no fundamental changes have been made to the structure or content of the FSS as part of this review for the 2025 valuation. However, a full review of the Fund’s FSS has been carried out, with minor changes made to ensure the document is fully compliant with the updated FSS guidance and key principles document.

The Fund has also reviewed its policies and funding strategy at the 2025 valuation, and the most significant changes include:

1. Review of funding assumptions

The Fund Actuary has reviewed the funding assumptions as part of the 2025 valuation. These have been updated to reflect emerging experience and market conditions as at 31 March 2025. All assumptions are 'best estimate' except for the discount rate assumption which includes a margin of prudence required by the LGPS Regulations.

The Fund Actuary models 5,000 simulations of possible future economic outcomes to set robust funding plans at whole fund level and for each individual employer. At the 2025 valuation, the Fund has adopted a prudence level of 80% (previously 75% at the 2022 valuation) for 'ongoing' funding to reflect the increased uncertainty and volatility in markets, and this change was agreed by Pensions Committee in November 2024 (and formally approved in June 2025). This means that the Fund assumes a level of investment return (discount rate) that is achieved in 80% of the simulations of the future. The Fund believes this strikes an appropriate balance between managing longer-term risk and shorter-term affordability for employers in the current environment.

2. Review of contribution rate calculations

Section 2 of the draft FSS sets out the approach to setting employer contribution rates. The approach is largely unchanged from 2022, with the following notable exceptions:

- **Minimum likelihood of success** (in Table 1) - updated to 80% to align with the agreed prudence level at 2025.
- **Treatment of surplus** (also in Table 1) - the Fund's has removed its preference to keep contribution rates at a minimum of the Primary Rate. This recognises the strong funding position of employers at the 2025 valuation and that contribution rate reductions via negative Secondary Rate contributions may be permitted.
- **Contribution floor** (section 2.3) – the Fund now allow employers to pay up to a maximum of 3% of pay less than the Primary Rate. This policy aims to support the key funding objectives of long-term stability and inter-generational fairness, while also providing shorter term contribution relief for employers.
- **Cessation (low-risk) assumptions** (Appendix E3) – the Fund proposes to adopt a 'corridor' approach to cessations assumptions to provide more certainty for employers approaching exit. A further policy on this change was approved at Pension Committee in January 2026.

3. Review of additional policy documents

To help employers navigate the FSS, the Fund has set out specific policies in the following areas (and these are included as [appendices to the FSS](#)):

- Academies policy
- Cessation policy
- Contribution reviews policy
- Pass-through policy

Each policy document has been reviewed at 2025 to reflect the new guidance and any technical or regulatory changes; however, the content of each policy remains largely unchanged from 2022.

Employers were encouraged to read any of the additional policies that may impact their participation in the Fund (eg academies and MATs should read the academies policy).

2025 FSS consultation

The draft FSS and policies were agreed by Pension Committee in September 2025 and put out for consultation from November 2025. The consultation went out to all Fund employers and the Department for Education (“DfE”).

The recently updated FSS guidance sets out best practice principles that funds should follow and encourages funds to consider the effectiveness of the of the FSS consultation. To help meet these expectations, the Fund has actively sought out engagement from all stakeholders using an employer engagement portal hosted by the Fund Actuary. Employers have been encouraged to provide feedback on the consultation process, the FSS accessibility, and to provide any further questions or comments on the content within the draft FSS.

From the responses received via the engagement portal, most employers found the FSS to be helpful and with sufficient detail and time to prepare a response (see appendix for a summary of responses to this accessibility survey). The Fund has engaged with employers (and other stakeholders) where specific comments (and questions) on the content of the Fund’s FSS have been raised (see appendix for a summary of these questions and the Fund’s responses).

Next steps

The FSS consultation period closed in January 2026.

All comments received during the consultation are considered by Fund Officers before preparing the final 2025 valuation FSS for sign off (which will then take effect from 1 April 2026). The final FSS provides the framework (until the next review date), for all employers participating in the Fund including new employers joining and employers exiting the Fund over this period.

The Pension Committee will be asked to approve the final version of the FSS at its March 2026 meeting.

The next full review of the FSS is due to take place as part of the 2028 formal funding valuation, however ad-hoc revisions to the FSS and policies are possible, with any material changes needing formal approval by Pension Committee.

Tom Hoare FFA C.Act

For and on behalf of Hymans Robertson LLP

Appendix 1 – Survey on the FSS accessibility and consultation process

The Fund shared the draft FSS with all employers and requested that they all access an Employer Engagement Portal (hosted by the Fund Actuary) to share their views on the FSS, ensuring the fund has facilitated and can document an effective FSS consultation.

At the time of writing, 41% of the employers who were issued employer results (and invited to respond to the consultation) have responded via the Portal. The Fund views this as a very successful response rate and is a significant increase in employer engagement from previous valuations.

Employers were surveyed on the accessibility of the FSS document and the consultation process to ensure this has been effective (or otherwise). A summary of these responses is below:

1. Employer responses via the portal

| | |
|----------------------------|-----|
| <i>Employer responders</i> | 41% |
| <i>Non responders</i> | 59% |

2. The FSS is clear and concise, it uses plain English and avoids acronyms, where possible

| | |
|----------------------------------|-----|
| <i>Strongly agree</i> | 10% |
| <i>Agree</i> | 66% |
| <i>Neither agree or disagree</i> | 24% |
| <i>Disagree</i> | 0% |
| <i>Strongly disagree</i> | 0% |

3. The FSS is informative and I have sufficient time to prepare a response within the FSS consultation period

| | |
|----------------------------------|-----|
| <i>Strongly agree</i> | 13% |
| <i>Agree</i> | 58% |
| <i>Neither agree or disagree</i> | 28% |
| <i>Disagree</i> | 1% |
| <i>Strongly disagree</i> | 0% |

4. I have been provided with sufficient detail about the policies adopted within or alongside the FSS, such as policies on employer exits

| | |
|----------------------------------|-----|
| <i>Strongly agree</i> | 12% |
| <i>Agree</i> | 63% |
| <i>Neither agree or disagree</i> | 23% |
| <i>Disagree</i> | 2% |
| <i>Strongly disagree</i> | 0% |

5. I understand what the next steps in the process will be and how the outcome of the consultation will be communicated

| | |
|----------------------------------|-----|
| <i>Strongly agree</i> | 10% |
| <i>Agree</i> | 72% |
| <i>Neither agree or disagree</i> | 16% |
| <i>Disagree</i> | 2% |
| <i>Strongly disagree</i> | 0% |

Appendix 2 – Employer questions and comments on the FSS

Within the Employer Engagement Portal, employers were asked to provide any specific questions or comments on the draft FSS. From the employers who responded, there was a significant number of positive comments – noting that the information has been helpful and that employers are satisfied with the process and the outcomes.

Where employers provided questions or challenges, these broadly fell into the following categories:

- **Contribution strategy, including modelling approach & parameters:** how the fund has calculated employer contribution rates.
- **Surplus management:** how the fund is managing employer surpluses via contribution rates (and policies).
- **Policies:** questions on specific funding policies, either contained within the core FSS document or the additional policy appendices.
- **Other funding factors:** other questions or comments on valuation outcomes, not specifically related to aspects of the FSS.

A summary of the main themes of these questions / comments (including some additional questions we have observed raised by stakeholders across the LGPS in general), and the Fund's general view in response to these are below.

Contribution strategy, including modelling approach & parameters

Primary rate calculation

Primary rates are too prudent.

Response: The Primary contribution rate has been calculated based on the approach and parameters set out in Section 2, and the assumptions set out in Appendix E of the Fund's FSS.

Primary Rates reflect the estimated cost of future accrual based on the Fund's funding strategy (ie the agreed approach, assumptions and the level of prudence) and aim to balance the need to protect the Fund from future risks with affordability and stability for employers.

For further context of the assumptions, the funding position is predicated on future investment returns of 6.1% pa compared to 4.4% pa in the previous valuation.

Modelling approach

The modelling approach is not transparent and is leading to overly cautious rates.

Response: As set out above, the assumptions used to calculate the contribution rates are set out in Appendix E of the FSS. The actuary uses a risk-based (stochastic) model which projects the employer's expected benefits payments over the next 17 years under 5,000 different simulations. Further detail on the modelling approach is available in Hymans Robertson's [LGPS Valuations Toolkit 2025](#).

The Fund strongly favours a stochastic approach to setting contribution rates as we feel this is a truer reflection of the risks over a future funding period, particularly given long-term open nature of the LGPS.

Contribution setting factors - Minimum likelihood of success ('prudence')

Rationale for increased prudence level

Response: Regulations set out a requirement for the Fund to set prudent assumptions for valuing pension benefits to support the aims of solvency, stability and to ultimately protect member benefits. 'Prudence' is not clearly defined anywhere in the Regulations or supporting guidance, however it is generally accepted that funds should aim to strike a balance of not being too prudent or imprudent. The level of prudence adopted at any point in time reflects several factors, including each fund's risk appetite and the prevailing funding and economic environment.

It is the Fund's view that there are increased uncertainties around inflation, future investment returns and wider risks at the 2025 valuation. Given the wider economic environment, coupled with the current funding position, the Fund has taken the view to increase prudence to a minimum of 80% (from 75% in 2022) to support longer-term stability and cost efficiency.

Also note, exit valuations are typically carried out using assumptions that have an equivalent 85%-95% prudence level attached, meaning the Fund's ongoing funding basis is lower.

The level of prudence has been approved by the pension committee as part of the over-arching governance of the valuation process and will remain under review at future valuations. In the future, given different economic or funding conditions, it may be appropriate to reduce prudence to continue to support the Fund's aims of affordable, stable contributions for employers.

Contribution setting factors – target funding level

Greater than 100% meaning employers are not benefiting fully from the surplus position.

Response: where an employer is in deficit, the Fund continues to target 100% funding – which has not changed from previous valuations. Where an employer is currently more than 100% funded, the Fund seeks to minimise the risk of future contribution increases by retaining some of the surplus as a buffer to protect the employers from future market volatility and provide more stable contributions over multiple valuations.

Surplus management

Contribution floor

Application of a contribution 'floor' means that the surplus is not being returned quick enough to employers

Response: The FSS sets out the Fund's approach to allow Employers to pay up to a contribution rate less than the Primary Rate (up to a maximum of 3% of pay less). This decision has been taken to support the aims of stability and inter-generational fairness and applies to open employers, ie those that will continue to admit employee into the scheme for many years to come.

The Fund has key funding objectives (set out in Section 1.2 of the FSS), which largely mirror the those set out in the Regulations. To enable the Fund to continue to meet these objectives over multiple valuation cycles, the Fund takes a long-term view and must also consider qualitative factors (in addition to the contribution rate modelling factors) to arrive at the final funding plans for employers. These factors include the Fund's stabilisation policy, consideration of the long-term cost of benefits (ie the Primary Rate) and employer long-term affordability, ie the difficulty of increasing employer rates in the future (which the Fund seeks to avoid to the benefit of all stakeholders).

To strike a balance of these funding objectives and qualitative factors, the Fund anchors employer rates to the Primary Rate, with some reduction below this Primary Rate being permitted in recognition of the current strong funding positions and to help with shorter term employer affordability.

This approach helps meet longer-term cost efficiency, intergenerational fairness and stability – as set out in the Regulations (noting this is a common approach adopted throughout the LGPS).

The Fund aims to return some surplus to employers but is cautious about reducing contributions too low (or too quickly) and the risk that employers then need to increase contributions again in the future if market expectations revert, or there is an unexpected crash in asset values.

The application of qualitative factors, such as those set out above, requires a degree of judgement (balancing the interests of all stakeholders). However, the Fund is comfortable that this decision is striking a fair balance of the competing funding objectives at this valuation given the current funding and economic environment and the need for a longer-term strategy to the benefit of employers.

The contribution floor will remain under review at future valuations (as part of the wider ongoing funding strategy review). However, the Fund's long-term strategy will remain unchanged, ie to meet the key long-term objectives set out in Section 1.2 of the FSS and in the Regulations by striking the appropriate balance of risk management versus employer affordability.

Recovery / surplus return periods

The implied surplus return periods are too long and application of a contribution floor and/or higher funding target means that surplus return period is longer than the stated time horizon.

Response: The time horizon is the period over which the Fund is aiming to ensure that each employer meets its funding target (ie is at least fully funded) and is an input to the contribution modelling. When setting funding plans for employers, the Fund must also consider wider qualitative factors (such as those set out under 'contribution floor'), meaning the resulting contributions may imply a longer (or shorter) time period.

Contributions - stabilisation

Contribution rates are not returning surplus quickly enough.

Response: The use of stabilisation parameters for employers (which limits increases/decreases in contribution rates to $\pm 2\%$ of pay pa) is based on our aim to reduce contribution volatility and support long-term planning for employers. This approach is consistent with the Fund's broader funding strategy and risk management objectives, and this policy has been supported by employers throughout multiple valuations.

Policies

Early retirement strains

Employers should be allowed to offset the current strong funding position against any future early retirement strain costs (which are currently required to paid in full when they occur, regales of the current funding position).

Response: The Fund will not consider offsetting early retirement strains against the funding position as this is an employer choice and such an action could create moral hazard.

However, where there is an early retirement strain on ill health grounds, the Fund may consider whether this can be offset against any funding surplus in certain circumstances.

Contribution rate reviews

The policy does not offer enough flexibility to appropriately deal with employer surpluses.

Response: The Fund's policy on inter-valuation reviews has been written to reflect the Regulations and associated SAB guidance on employer flexibilities. The content of this policy is standard, and no further restrictions have been added following review at the 2025 valuation.

Asset allocation for converting academies

Initial funding levels of academies upon conversion are capped at 100% (even when the local authority is in significant surplus).

Response: On conversion from LEA status, assets of no more than the fully funded (100%) value of the transferring liabilities are transferred to the Academy/MAT. When the local authority is in surplus, this ensures that any surplus in respect of the transferring liabilities is retained by the local authority. This is appropriate because the local authority is responsible for meeting the deferred and pensioners obligations of former staff of the transferring school. This provides protection to the local authority from adverse market conditions that may arise and worsen the funding position (specifically, in respect of the legacy deferred and pensioner obligations).

This is a common approach applied across the LGPS, and it is in line with principles that generally apply when determining asset shares in other situations (eg bulk transfers of membership in or out of the scheme or between LGPS funds).

Exit valuations (assumptions)

The assumptions used for employer exits are too prudent as these are more prudent than a low-risk measure (eg gilts) or an insurance buy-out basis.

Response: The Fund favours a risk-based approach to setting assumptions, as opposed to using a low-risk market measure such as gilt yields or insurance pricing. The Fund is not invested solely in gilts (and cannot buy-out liabilities) and therefore it is more appropriate to set assumptions based on the Fund's actual portfolio of investments and an agreed risk level.

To help employers have greater certainty of costs as they approach exit, the Fund adopts a 'corridor' approach to cessation valuations. A debt is only payable if a deficit exists on the 85% prudence level – noting these assumptions are generally more favourable to the employers than a gilts-based cessation valuation. Please note, the initial draft FSS stated a lower limit of 90%, however this has been relaxed to 85% and agreed with Pension Committee in January 2026.

Where an employer is in surplus on the 95% prudence level, an exit credit may be payable.

Having a corridor of certainty allows employers to plan more effectively for exiting the scheme and are less exposed to sudden market fluctuations prior to exit.

At the previous valuation, the Fund adopted a single prudence level of 90% for all exit valuations. The new corridor approach should provide greater protection for exiting employers and the 85% / 95% limits to the 'corridor' have been set to be equitable for employers (relative to the previous 90% single target).

Other funding factors

Post valuation experience

The funding position of employers has likely improved significantly since the valuation date due to market movements, and this should be reflected in the contribution rates.

Response: The Fund has experienced strong investment performance since 31 March 2025; however, we consider this to be simply a consequence of general market movements over that time. Market performance and fluctuations is not an appropriate factor to consider as 'post valuation experience'. This is also true had investment performance been poor over this period. The impact of this experience (if it holds in the future) will be reflected in the funding positions (and future contribution rate considerations) as part of the 2028 valuation.

Furthermore, as set out in the Fund's contribution review policy and associated SAB guidance, changes in market conditions is not an appropriate trigger for an inter-valuation contribution rate review under Regulation 64, and should not be taken into account where a contribution review has otherwise been triggered.

Contributions being paid in 2025/26

Employer contributions being paid in 2025/26 are higher than now required and employers should benefit from this overpayment with a reduction / offset to their new contribution rates.

Response: Contribution rates are set every 3 years at the formal valuation (on 31 March) and take effect from 1 April the following year. Given the time that the valuation takes to complete, there is a necessary 1-year lag in the contribution rates. Employer rates that are paid during the valuation year represent the final year of the rates certified at the previous valuation and therefore no adjustment takes place.

This approach would be the same had contribution rates been increasing or decreasing at the 2025 valuation and is therefore fair to all employers. The impact of these contributions (paid during 2025/26) will be reflected in the funding positions (and future contribution rate considerations) as part of the 2028 valuation.

Peer comparison of employer contribution rates

Contribution rates being paid by similar employers in this fund or in other funds are lower. Other similar employers have received greater reductions in contribution rates.

Response: Peer comparison with other employers in the Fund, or indeed across other LGPS funds, should be avoided. Comparing contribution outcomes can be misleading and does not mean that any employers are paying 'too much' or indeed 'too little' relative to another. The funding strategy (and contribution rate) for each employer in the Fund reflects its own unique circumstances - including the funding position, demographic profile and employer covenant. Similarly, contribution outcomes across different LGPS funds will vary, reflecting various funding and investment strategy decisions, local circumstances, and risk appetite.

Each employer is responsible for funding the benefits of their own employees (past and future), so employers paying more now are likely to pay less in the future, and vice versa (all else being equal).