Leicestershire County Council Pension Fund

Funding Strategy Statement

April 2026

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1 Purpose of the Leicestershire County Council Pension Fund and the Funding Strategy Statement

This document sets out the Funding Strategy Statement (FSS) for Leicestershire County Council Pension Fund (the Fund).

The Leicestershire County Council Pension Fund is administered by Leicestershire County Council, known as the Administering Authority. Leicestershire County 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 Leicestershire County 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 ian.howe@leics.go.uk.

1.1 What is the Leicestershire County Council Pension Fund?

The Fund is part of the Local Government Pension Scheme (LGPS). You can find more information about the LGPS at 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.
- where appropriate, ensure fairness between employers and between different generations of tax-payers.
- The Fund will engage in a consultation 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), that 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. Include universities, housing associations and charities.

1.4 How is the funding strategy specific to the Leicestershire County Council 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 and an annual check is carried out in the intervening years.

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 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 Links to Administration Strategy

The Fund maintains an Administration Strategy Statement which outlines the responsibilities, standards and procedures for employers and the Fund. A copy of this is available www.leicspensionfund.co.uk/about-fund/governance/fund-policies

Adherence with the requirements of the Administration Strategy Statement is crucial to ensure the well-running of the Pension Fund and any failure to do so may lead to uncertainty around the value of an employer's liabilities and the need for prudent assumptions to fill any data gaps.

1.7 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 actuarial exercise. 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 will typically be expressed as a percentage of payroll).

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** – an adjustment to the total contribution rate to allow for the current funding position of the employer's past service benefits.

The primary rate also includes an allowance for the Fund's administration 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 target funding level
- **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 target funding level is met.

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

*The employer must have at least a **80% likelihood** of being **100% funded** on the **ongoing participation basis** at the end of a **17 year** funding time horizon*

The funding strategy criteria used by the fund are set out in Table 2. Further detail on the ESS and on the funding bases used by the fund are set out in Appendix E.

The target funding level may be set greater than 100% as a buffer against future adverse experience. This may be appropriate for long term open employers, where adverse future funding experience may lead to future contribution rises.

This approach takes into account the maturing profile of the membership when setting employer contribution rates.

The approach taken by the Fund Actuary 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[1]
Sub-type	Local authorities, police, fire	Universities	Academies and Colleges	Open to new entrants	Closed to new entrants	(all)
SAB Tier	Tier 1	Tier 3	Tier 2	Tier 3	Tier 3	Tier 1
Funding basis[2]	Ongoing	Ongoing	Ongoing	Ongoing	Low-risk	Ongoing
Target funding level [3]	120%	120%	120%	120%	120%	100%
Minimum likelihood of success	80%	80-85%[4]	80%	80%	90%	80%
Maximum time horizon[5]	17 years	17 years	17 years	17 years	17 years	Same as the letting employer
Primary rate approach[6]	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					
Secondary rate	The difference between the total contribution rate payable (determined as per 2,1) and the primary rate.					
Stabilised contribution rate?	Yes	No	No	No	No	No
Treatment of surplus	Covered by stabilisation arrangement	Preferred approach: Reductions may be permitted by the Administering Authority - see section 2.3 below				
Recognising covenant	Stabilisation parameters	Adjust likelihood of success – can be at employer level				
Phasing of contribution changes	Covered by stabilisation arrangement	Up to 3 years				None
Approach to cessation calculations	The Fund's approach to cessation calculations is set out in Section 3.1 of Appendix I					

[1] Employers participating in the Fund under a pass-through agreement will pay a contribution rate as agreed between the contractor and letting authority (in most cases this is set equal to the letting authority's total contribution rate). The Fund's policy on pass-through employers is detailed in Appendix F.

[2] See Appendix E for further information on the funding basis.

[3] See section 2.3 for further information on the target funding level.

[4] The likelihood of success will reflect the employer's risk characteristics. The Fund's approach to assessing and monitoring employer risk is set out in Appendix D6. Where an employer is able to evidence stronger covenant (eg providing security), a lower likelihood within this bound may be permitted (but no lower than 80%)

[5] If an employer moves into a deficit position it is expected that this is resolved as soon as possible, and a shorter time horizon may be used by the Fund where deemed appropriate. The time horizon will be set with reference to the employer's covenant strength.

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

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 Target funding level and contribution reductions

Where an employer has a surplus, as calculated by the Fund Actuary on the appropriate funding basis, a reduction in contribution rate may be permitted by the Administering Authority.

The following framework will be used as a guide, and the Administering Authority has discretion and applies to all employers who remain open to new entrants and with no fixed end date in the scheme.

Employer funding level	Total contribution rate
Between 100% and 120%	Employer pays their Primary contribution rate
Greater than 120% funded	Employer is allowed to benefit from a contribution rate reduction (via a negative Secondary Rate), to gradually reduce their funding level down to 120% Employer may pay up to a maximum of 3% less than the Primary Rate to support the aims of stability and inter-generational fairness

Where an employer is expected to exit the scheme in the future, in general the Fund will seek to reduce any surplus where possible prior to the Employer's exit date.

2.4 Making contribution rates stable

Making employer contribution rates reasonably stable is an important funding objective. If this isn't appropriate, contribution increases or decreases may be phased subject to agreement by the Administering Authority.

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.

Current stabilisation approach

Type of employer	Local authorities, police & fire.
Maximum contribution increase per year	+2% of pay
Maximum contribution decrease per year	-2% of pay

Stabilisation criteria and limits are reviewed during the valuation process. The Administering Authority may review them between valuations to respond to membership or employer changes. The Fund may exercise discretion over the phasing of the maximum contribution increase/decrease per year subject to a maximum increase/decrease of 6% of pay over the 3-year inter-valuation period.

2.5 Employer open or closed status

Employer Status	Employer duties	Comments	Fund Requirements
Open (employer is 'open' to new entrants)	All new eligible staff employed by the employer are brought into the LGPS	Assessed by employer group (Table 2.2. FSS)	Actuarially assessed using the open (ongoing) methodology
Closed (employer is 'closed' to new entrants, but existing LGPS staff continue to accrue benefits)	There are no new eligible staff employed by the employer. All new staff are enrolled into a different pension arrangement	Assessed by closed to new entrants (Table 2.2. FSS)	Employer guarantor Security bond (full or capital cost) May be actuarially assessed using the low-risk methodology and/or by targeting a higher likelihood of success
Where an employer is partially open/closed the following principles will apply:			
'Deemed Closed' (9% or less)	Employers closing the scheme to some future eligible staff (existing staff remaining in) Employer to provide annual payroll data to enable the Fund to assess LGPS % level	9% or less of new employees still eligible to join the LGPS	Employer guarantor Security bond (full or capital cost) May be actuarially assessed using the low-risk methodology and/or

			by targeting a higher likelihood of success If the employer's annual payroll data reflects a change to 'deemed open' then a contribution review may be requested
'Deemed Open' (10% or higher)	Employers closing the scheme to some future eligible staff (existing staff remaining in) Employer to provide annual payroll data to enable the Fund to assess LGPS % level	10% or more of new employees still eligible to join the LGPS	Actuarially assessed using the open (ongoing) methodology The overall risk of the employer will be assessed (which may include a covenant assessment by a third party covenant specialist), and this will be factored into the funding approach taken (for example, a higher likelihood of success may be adopted to reflect increased risk or other conditions imposed to suitably manage the risk). If the employer's annual payroll data reflects a change to 'deemed closed' then a contribution review may be carried out by the Fund.

2.6 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 does not currently offer any alternative employer investment strategies (including facilitating a buy-in or other insurance solutions) due to the cost and administrative implications to maintain these relative to a single strategy.

The Fund's current strategic investment strategy as at 31 March 2025 is summarised in the table, with full details available at [link].

Asset class	Allocation
Global Equities (hedged)	12.5%
Global Equities (unhedged)	28.5%
Private Equity	7.5%
Infrastructure Equity (unlisted)	12.5%
Property	7.5%
Diversified Growth Fund (low Beta)	5.0%
Multi Asset Credit (sub investment grade)	5.5%
A Credit (4-year maturity)	4.6%
Fixed Interest Gilts (14-year maturity)	0.9%
Index Linked Gilts (24-year maturity)	3.5%
Asset Backed Securities	0.8%
Private Lending	9.5%
Emerging Market Debt (local)	0.9%
Cash	0.8%
Total	100%

2.7 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)

2.8 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 H Section 3.1. The purpose of any review is to establish the most appropriate contributions. A review may lead to an increase or decrease in contributions. The cost of this work is charged to the employer.

2.9 What is pooling?

The Administering Authority does not currently allow employers to enter into a funding pool except under specific circumstances. Where an employer is participating in the Fund under a pass-through admission agreement this employer will be pooled with the letting authority. Similarly, when an academy joins an existing multi-academy trust (MAT) within the Fund, the funding positions are pooled together. In both situations the funding position of the individual employers are no longer tracked separately.

The Fund's policies on pass-through employers and academies are detailed in Appendix F and Appendix G respectively.

2.10 What are the current contribution pools?

There are currently no contribution pools in the Fund with the exception of MATs and pass-through employers who are pooled with the respective letting authority.

2.11 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 or extended time horizon. Added security may include a suitable bond, a legally binding guarantee from an appropriate third party, or security over an asset.

2.12 Prepayment of contributions

The Fund permits the prepayment of employer contributions in specific circumstances.

Employer contributions

- The Fund will consider requests from employers to make payment of their employer contributions early or additional amounts over and above their employer rate.
- Each case will be considered on its own merits, taking into account the type of the employer, the employer rate, the amount and the value of cash the Fund holds.

Employee contributions

- The Fund will not usually consider requests to allow payment of employee contributions early.
- In exceptional circumstances, Officers may consider this on a case-by-case basis.

Prepayment of contributions does not guarantee improved investment benefits and any detriment is at the employer's own risk.

2.12 Non cash funding

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

2.13 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 emergent 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 may be asked to pay additional contributions called strain payments.

Employers typically make strain payments as a single lump sum, though strain payments may be spread in exceptional circumstances if the Administering Authority agrees but when spread, the employer will need to pay for the lost investment return.

3.2 Pension costs – early retirement on ill-health grounds

If a member retires early because of ill-health, their employer must pay a funding strain, which may be a large sum. Each employer has an 'ill health allowance' built into the full contribution rate that is set at each actuarial valuation, but for higher risk employers or breaches of the "ill health allowance" the Fund may require immediate payment of this funding strain.

To mitigate this, employers may choose to use external insurance made available by the Fund (which is currently provided through Legal & General).

- **TABs** – the Fund's admission agreement requires TABs to take out ill-health liability insurance (IHLI).
- **Other employers** – IHLI is offered to all other employers. This is not mandatory but is strongly recommended for smaller and mid-size employers.

If an employer insures against the risk of ill-health retirements, there will be a reduction to the employer's contribution rate that is the equivalent to the external insurance premium rate.

In the event of an ill health early retirement:

- **Insured employers –** will be invoiced for the funding strain cost which they pay to the Fund. The employer then claims this cost back via the insurance contract.
- **Uninsured employers –** the Pension Manager reviews cases each quarter and the employer may be asked to make an additional payment towards the funding strain.

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.

The Fund uses Hymans Robertson's HEAT system to track employer assets monthly. Each employer's assets from the previous month end are added to monthly cashflows paid in/out and investment returns to give a new month-end asset value.

If an employee moves one from one employer to another 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 (see section 4).

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.

Benefits are valued in line with the regulations in force at the time of the valuation, with an exception relating to the McCloud ruling. The benefits of members likely to be affected by the McCloud ruling have instead been valued in line with the expected regulations, reflecting an underpin as directed by Ministry of Housing, Communities and Local Government (MHCLG).

4.3 What is a funding level?

An employer's funding level is the ratio of the market value of asset share against 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.

The required calculations will be carried out by the Fund Actuary, and the associated actuarial costs will be recharged to the employer.

5.2 New academies

New academies (including free schools) join the Fund as separate scheduled employers. Only active members of former council schools transfer to new academies. Free schools do not 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 (ie 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 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. The new academy's contribution rate (where not joining an existing MAT) is based on the current funding strategy (set out in section 2) and the transferring membership.

Academies joining an existing MAT within the Fund will be pooled with this MAT and will fully share all risks and costs. Academies within a MAT pay the same total contribution rate. If an academy leaves one MAT and joins another, all active, deferred and pensioner members transfer to the new MAT (unless it is not possible to identify all deferred and pensioner members of the transferring academy).

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.

The Fund's full policy on academy participation is detailed in Appendix G

5.3 New admission bodies as a result 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.

There is flexibility for outsourcing employers when it comes to pension risk potentially taken on by the contractor. You can find more details on outsourcing options from the Administering Authority or in the contract admission agreement.

Passthrough admissions

The Fund's preference is that all new admission bodies will be set up via a pass-through arrangement. The Fund's policy on passthrough is detailed in Appendix F

Non-passthrough admission

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.

5.4 Other new employers

There may be other circumstances that lead to a new admission body entering the Fund, eg 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 usually town and parish councils. Contribution rates will be set using the same approach as other designated employers in the Fund.

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. The required amount will be calculated by the Fund Actuary, and the associated actuarial costs will be recharged to the admission body.

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 admission body is required to provide security – such as an indemnity or bond – as determined by the Administering Authority.

6 What happens if an employer has a bulk transfer of staff?

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 process to agree bulk transfer terms, transfer the data and calculate the asset share can be lengthy and the administrative and actuarial costs associated with the bulk transfer will be payable by the effected employer.

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. Please note this is only permitted where the employer is expected to admit further members into the scheme in the near future (typically only for Town & Parish Councils)
- 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), where an employer with no active members had been participating in the Fund as a deferred employer (see below).

On cessation, the employer may be permitted to enter into a deferred debt arrangement (DDA) and become a deferred employer in the Fund (as detailed in Section 7.4). 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 Fund and the associated actuarial costs will be recharged to the exiting employer.

7.2 What happens on cessation?

The Administering Authority must protect the interests of the remaining Fund employers when an employer leaves the scheme. The Actuary aims to protect remaining employers from the risk of future loss. The funding basis adopted for the cessation calculation is below. These are defined in Appendix E.

(a) Where there is no guarantor, cessation liabilities will usually be calculated using a low-risk basis, which is more prudent than the ongoing participation basis. The low-risk basis used for cessation calculations is defined in Appendix E.

(b) Where there is a guarantor, the nature of the guarantee will be considered before the cessation valuation and the cessation may be calculated using the same basis for ongoing funding, depending on the circumstances of the employer's exit. The ongoing basis is defined in Appendix E.

If the Fund can't recover the required payment in full, unpaid amounts will be paid by the 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.

After an employer without a guarantor has left the scheme and paid off the deficit in full or settled the surplus (calculated using assumptions in place at the time of leaving) future risk then sits with the remaining Fund employers.

The Fund Actuary charges a fee for cessation valuations. Fees and expenses are at the employer's expense and will be invoiced to the employer on completion of the cessation valuation (or in certain cases may be deducted from the cessation surplus or added to the cessation deficit).

The Fund's cessation policy is detailed in Appendix I

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

The Fund's policy on employer flexibilities on exit is set out section 3.2 of the cessation policy in Appendix I.

7.4 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 the DDA/DSA 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 the formal valuation.

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 on a pro-rata basis at the formal valuation.

7.5 What happens if there is a surplus?

If the cessation valuation shows the exiting employer has more assets than liabilities – an exit credit – the Administering Authority can 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.

The exit credit policy is set out within section 3.3 of the Fund's cessation policy in Appendix I

7.6 Partial cessations

In general, the Fund does not allow employer partial cessations on the grounds of equitable treatment for all employers (as the funding risks of the employer seeking to partially cease would transfer to other employers within the Fund, if allowed). The Fund reserves the right to review this policy in exceptional circumstances.

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% (or above) 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 funding level of (at least) 100%.

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.

See Section 2 for further details on how contributions rates are set to maintain solvency.

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 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 Funds' 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 Fund's valuation report to facilitate comparisons between Funds.

Appendices

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 Fund's consultation process during a valuation year includes issuing a draft version of the FSS to participating employers, highlighting the key changes, and inviting employers to attend the AGM. Draft employer valuation results will be issued alongside the draft FSS. Employer feedback from this process will be considered, and any changes incorporated within the final version of the FSS that will be approved by the Fund's committee prior to the end of the valuation year.

The fund also shared the draft FSS with the Department for Education.

A3 How is the FSS published?

The FSS is emailed to participating employers. A full copy is included in the Fund's annual report and accounts. Copies are freely available on request and is published on the Administering Authority's website.

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 Investment Strategy Statement, governance strategy and communications strategy. The Fund's annual report and accounts also include up-to-date Fund information.

You can see Fund documentation at https://www.leicspensionfund.co.uk/about-fund/governance/fund-policies

Appendix B – Roles and responsibilities

B1 The Administering Authority are 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 process 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 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 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 (outsourcing employers)

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 Committee and Local Pension Board is available on the Pension Fund's website.

https://www.leicspensionfund.co.uk/about-fund/governance/local-pension-committee

Details of the key Fund-specific risks and controls are set out in the risk register which is presented quarterly to the Board and Committee.

D2 Financial risks

Risk	Control
Fund assets don't deliver the anticipated returns that underpin the valuation of liabilities and contribution rates over the long-term.	Anticipate long-term returns on a prudent basis to reduce risk of under-performing. Use specialist advice to invest and diversify assets across asset classes, geographies, managers, etc. Analyse progress at three-year valuations for all employers. Roll forward whole Fund liabilities between valuations.
Inappropriate long-term investment strategy.	Consider overall investment strategy options as part of the funding strategy. Use asset liability modelling to measure outcomes and choose the option that provides the best balance. Operate various strategies to meet the needs of a diverse employer group.
Active investment manager under-performs relative to benchmark.	Use quarterly investment monitoring to analyse market performance and active managers, relative to index benchmark.
Pay and price inflation is significantly more than anticipated.	Focus valuation on real returns on assets, net of price and pay increases. Use inter-valuation monitoring to give early warning. Invest in bonds. Employers to be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Increased employer's contribution rate affects service delivery and admission/scheduled bodies.	Agree an explicit stabilisation mechanism, with other measures to limit sudden increases in contributions.

Risk	Control
Orphaned employers create added Fund costs.	Seek a cessation debt (or security/guarantor). Spread added costs among employers.

D3 Demographic risks

Risk	Control
Pensioners live longer, increasing Fund costs.	Set mortality assumptions with allowances for future increases in life expectancy. Use the Fund Actuary's experience and access to over 50 LGPS Funds to identify changes in life expectancy that might affect the longevity assumptions early.
As the Fund matures, the proportion of actively contributing employees declines relative to retired employees.	Monitor at each valuation, consider seeking monetary amounts rather than % of pay. Consider alternative investment strategies.
Deteriorating patterns of early retirements	Charge employers the extra cost of non ill-health retirements following each individual decision. Monitor employer ill-health retirement experience, with optional insurance.
Reductions in payroll cause insufficient deficit recovery payments.	Buy-out employers in the stabilisation mechanism to permit contribution increases. Review contributions between valuations. This may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

D4 Regulatory risks

Risk	Control
Changes to national pension requirements or HMRC rules.	Consider all Government consultation papers and comment where appropriate. Monitor progress on the McCloud court case and consider an interim valuation or other action once more information is known. Build preferred solutions into valuations as required.
Time, cost or reputational risks associated with any MHCLG intervention triggered by the Section 13 analysis	Take advice from the Actuary and consider the proposed valuation approach, relative to anticipated Section 13 analysis.

Changes to employer participation in LGPS Funds leads to impacts on funding or investment strategies.	Consider all Government consultation papers and comment where appropriate. Take advice from the Fund Actuary and amend strategy.

D5 Governance risks

Risk	Control
The Administering Authority is not aware of employer membership changes, for example a large fall in employee members, large number of retirements, or is not advised that an employer is closed to new entrants.	The Administering Authority develops a close relationship with employing bodies and communicates required standards. The Actuary may revise the rates and adjustments certificate to increase an employer's contributions between valuations Deficit contributions may be expressed as monetary amounts.
Actuarial or investment advice is not sought/ heeded, or proves to be insufficient in some way	The Administering Authority maintains close contact with its advisers. Advice is delivered through formal meetings and recorded appropriately. Actuarial advice is subject to professional requirements like peer review.
The Administering Authority fails to commission the Actuary to carry out a termination valuation for an admission body leaving the Fund.	The Administering Authority requires employers with Best Value contractors to inform it of changes. CABs' memberships are monitored and steps are taken if active membership decreases.
An employer ceases to exist with insufficient funding or bonds.	It's normally too late to manage this risk if left to the time of departure. This risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body. Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Requiring a bond to protect the Fund, where permitted. Requiring a guarantor for new CABs. Regularly reviewing bond or guarantor arrangements. Reviewing contributions well ahead of cessation.

Risk	Control
An employer ceases to exist, so an exit credit is payable.	The Administering Authority regularly monitors admission bodies coming up to cessation. The Administering Authority invests in liquid assets so that exit credits can be paid.

D6 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.

Type of employer	Assessment	Monitoring
Local Authorities, Police, Fire	Tax-raising or government-backed, no individual assessment required High level risk profiling carried out on pension metrics	Triennial review of risk profiling analysis
Colleges	Government-backed, covered by DfE guarantee in event of failure High level risk profiling carried out on pension metrics	Triennial review of risk profiling analysis Check that DfE guarantee continues, after regular scheduled DfE review
Universities	High level risk profiling carried out on pension metrics	Triennial review of risk profiling analysis Additional conversations with employers to consider emerging risks Development of ongoing risk management review, requesting additional security where appropriate Annual review of funding position to support ongoing covenant assessment and inform whether to request additional security.
Academies	Government-backed, covered by DfE guarantee in event of MAT failure High level risk profiling carried out on pension metrics	Triennial review of risk profiling analysis Check that DfE guarantee continues, after regular scheduled DfE review
Admission bodies (CABs)	High level risk profiling carried out on pension metrics	Triennial review of risk profiling analysis

Type of employer	Assessment	Monitoring
	Review available security	Ongoing risk management review, requesting additional security where appropriate
Admission bodies (TABs)	On admission Fund considers letting authority covenant, contract length and potential capital costs risk. Reference effective guarantee provided by the Awarding Authority High level risk profiling carried out on pension metrics	Triennial review of risk profiling analysis Regular monitoring (at triennial valuation, or more regularly where necessary)
Designating employers	High level risk profiling carried out on pension metrics	Triennial review of risk profiling analysis

The outcome of any assessments may be a factor considered when setting employer contribution rates.

D7 Climate risk

The Fund has considered climate-related risks when setting the funding strategy, in line with guidance approved by the LGPS Scheme Advisory Board, MHCLG and GAD for "key principles for preparing climate scenario analysis as part of the 2025 valuation".

The Fund's Actuary Hymans Robertson have stress tested the funding and investment strategies against possible future climate scenarios, enabling the Fund to understand the resilience of the funding strategy statement.

While there is significant uncertainty around the type of risks, and when they may occur,

the current strategies were proven to be resilient to climate transition risks within an appropriate level of prudence. The Fund will continue to monitor the resilience of the funding strategy to climate risks at future valuations or when there has been a significant change in the risk posed to the Fund (e.g. global climate policy changes).

The climate scenario analysis incorporates both stress testing, and narrative-based scenario analysis for the local authority employers 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. This helps to identify vulnerabilities across both assets and liabilities. Identification of these vulnerabilities can inform risk management processes (see figure 1), helping the Fund ensure appropriate controls and mitigations are in place. Scenario analysis therefore supports informed decision making, and may be used in future to assist with disclosures prepared in line with Task Force on Climate-Related Financial Disclosures (TCFD) principles.

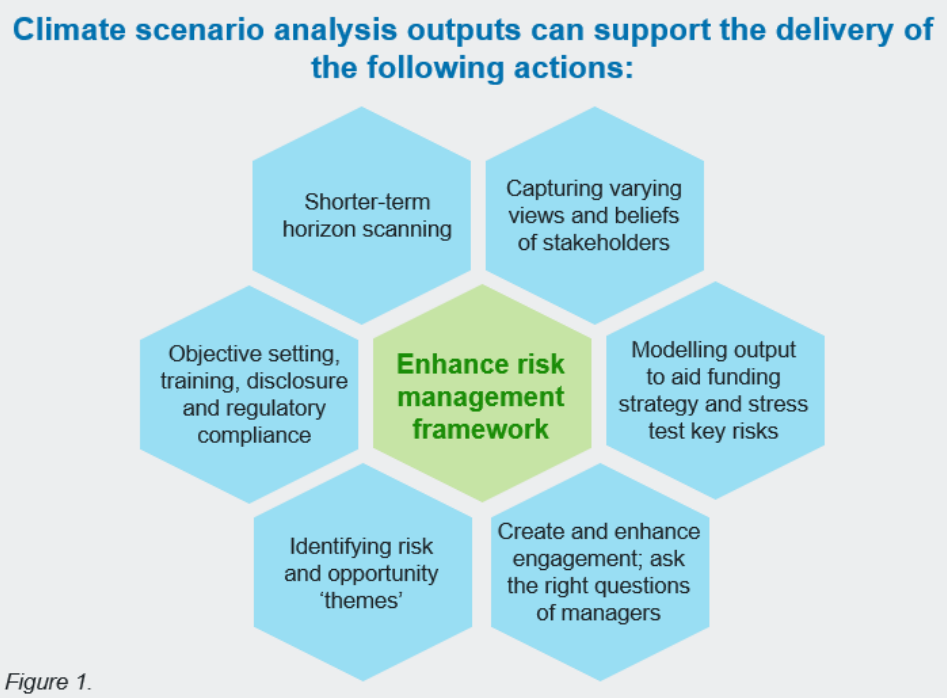

Figure 1.

This climate analysis was not applied to the funding strategy modelling for smaller employers. However, given that the same underlying model is used for all employers and that the local authority employers make up the vast majority of the fund's assets and liabilities, applying the climate analysis to all employers was not deemed proportionate at this stage and would not be expected to result in any changes to the agreed contribution plans.

Climate risk is considered in the Fund's risk register, Investment Strategy Statement and Net Zero Climate Strategy which is reported against annually as part of the Fund's TCFD compliant Climate Risk Management Report. The actions taken by the Fund are reported as part of this process.

Information is available on the Pension Fund's website.

https://www.leicspensionfund.co.uk/investments

D8 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 actuarial 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 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 17-year period with a 80% likelihood.

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

Funding basis	Prudence level
Ongoing	80%
Low-risk	90%

The application of the funding basis for different types of employer groups is set out in the table in Section 2.2.

Cessation basis	Prudence level
Low-risk (lower limit)	85%
Low-risk (upper limit)	95%

Where an exiting employer ceases on the low-risk basis, the liabilities will be calculated on both the lower and upper limits to determine whether any deficit or surplus exists. Any deficit to be payable by the employer is determined using a discount rate calculated on the lower limit. If a surplus exists using a discount rate calculated on the upper limit, then the Fund will carry out an exit credit determination. See section 3.3 of the Fund's cessation policy in Appendix I for more detail.

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 17-year period with a 50% likelihood

Since the valuation date, the risk of high inflation persisting for longer than consensus expects has increased, primarily driven ongoing geo-political uncertainty and global trade tariffs. Due to these factors, an 'inflation protection' margin of 0.2% pa has been to the 2025 ESS valuation assumption.

Salary growth

The salary growth assumption is linked to the CPI inflation assumption via a fixed margin. The salary increases assumption is 0.5% 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.

		Annualised total returns							Economic variables				
		Cash	Index Linked Gilts (medium)	Fixed Interest Gilts (medium)	UK Equity	Developed World ex UK Equity	Property	Corp Medium A	Inflation (RPI)	17 year real yield (RPI)	Inflation (CPI)	17 year real yield (CPI)	17 year yield
5 years	16th %'ile	3.1%	0.9%	1.6%	-0.3%	-0.8%	-0.2%	1.4%	2.3%	0.4%	1.3%	0.5%	3.7%
	50th %'ile	3.9%	3.8%	3.7%	7.8%	7.7%	6.4%	4.1%	3.9%	1.3%	2.8%	1.4%	4.8%
	84th %'ile	4.7%	7.0%	5.9%	16.0%	16.1%	13.8%	6.5%	5.4%	2.3%	4.4%	2.3%	6.0%
10 years	16th %'ile	2.9%	1.6%	3.1%	1.8%	1.5%	1.6%	3.2%	1.5%	0.2%	1.0%	0.2%	3.2%
	50th %'ile	3.9%	3.6%	4.3%	7.8%	7.7%	6.6%	4.7%	3.2%	1.5%	2.6%	1.4%	4.6%
	84th %'ile	5.1%	5.9%	5.5%	13.8%	13.9%	11.9%	6.2%	4.9%	2.7%	4.2%	2.7%	6.3%
20 years	16th %'ile	2.6%	1.9%	4.0%	3.3%	3.1%	3.0%	4.3%	1.1%	-0.5%	0.8%	-0.5%	1.6%
	50th %'ile	4.0%	3.6%	4.8%	7.9%	7.7%	6.7%	5.3%	2.7%	1.2%	2.4%	1.2%	3.5%
	84th %'ile	5.7%	5.4%	5.5%	12.4%	12.5%	10.7%	6.3%	4.3%	2.9%	4.0%	2.9%	6.1%
	Volatility (Disp) (1 yr)	0%	7%	6%	16%	17%	16%	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?

Demographic assumptions are best estimates of future experience. 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 their results.

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 death. For example, at age 65 this is assumed to be 55% for males and 54% for females. Dependant of a male is assumed to be 3.5 years younger than him. Dependant of a female is assumed to be 0.6 years older than her.
Commutation	70% of maximum under HMRC limits.

50:50 option	0% of members will elect to change 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	323.45	304.88	0.00	0.00	0.00	0.00
25	117	0.17	213.65	201.38	0.00	0.00	0.00	0.00
30	131	0.20	151.59	142.86	0.00	0.00	0.00	0.00
35	144	0.24	118.44	111.61	0.10	0.07	0.02	0.01
40	151	0.41	95.36	89.83	0.16	0.12	0.03	0.02
45	159	0.68	89.57	84.36	0.35	0.27	0.07	0.05
50	167	1.09	73.83	69.46	0.90	0.68	0.23	0.17
55	173	1.70	58.14	54.73	3.54	2.65	0.51	0.38
60	174	3.06	51.82	48.76	6.23	4.67	0.44	0.33

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	281.94	224.34	0.00	0.00	0.00	0.00
25	117	0.10	189.71	150.93	0.10	0.07	0.02	0.01
30	131	0.14	159.02	126.50	0.13	0.10	0.03	0.02
35	144	0.24	137.25	109.14	0.26	0.19	0.05	0.04
40	151	0.38	114.23	90.80	0.39	0.29	0.08	0.06
45	159	0.62	106.60	84.72	0.52	0.39	0.10	0.08
50	167	0.90	89.87	71.35	0.97	0.73	0.24	0.18
55	173	1.19	67.06	53.30	3.59	2.69	0.52	0.39
60	174	1.52	54.04	42.90	5.71	4.28	0.54	0.40

Appendix F – Passthrough policy

Policy on passthrough

1 Introduction

The purpose of this policy is to set out the administering authority's approach to admitting new contractors into the Fund on a passthrough basis.

In addition, and subject to review on a case-by-case basis, the Fund may be willing to apply its passthrough principles to other admission bodies where liabilities are covered by a guarantor within the Fund.

Contractors are still permitted to enter the Fund under non-passthrough admissions as detailed in Section 5.3 of the FSS. This policy does not apply in these cases.

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 set out the Fund's approach to admitting new contractors, including the calculation of contribution rates and how risks are shared under the passthrough arrangement.
- To outline the process for admitting new contractors into the Fund

1.2 Background

Employees outsourced from local authorities, or from independent schools (generally academies, regulated by the Department for Education) must be offered pension benefits that are the same, better than, or count as being broadly comparable to, the Local Government Pension Scheme (as per the Best Value Authorities Staff Transfer (Pensions) Direction 2007).

This may be achieved by offering affected employees membership of an alternative broadly comparable scheme. However this is typically achieved by employees remaining in the LGPS and the new employer becoming an admitted body to the Fund and making the requisite employer contributions.

Passthrough is an arrangement whereby the letting authority (the local authority or the independent school) retains the main risks of fluctuations in the employer contribution rate during the life of the contract, and the risk that the contractor's assets may be insufficient to meet the employees' pension benefits at the end of the contract.

1.3 Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 (as amended) set out the way in which LGPS funds should determine employer contributions and contain relevant provisions regarding the payment of these, including the following:

- Schedule 2 Part 3 sets out the entities eligible to join the Fund as an admitted body, their key responsibilities as an admitted body and the requirements of the admission agreement.
- Regulation 67 – sets out the requirement for employers to pay contributions in line with the Rates and Adjustments (R&A) certificate and provides a definition of the primary rate.

- Regulation 64 - covers the requirements for a cessation valuation following the exit of a participating employer from the Fund.

2 Statement of principles

This statement of principles covers the admission of new contractors to the Fund on a passthrough basis. Each case will be treated on its own merits, but in general:

- Pass through is the preferred approach for the admission of all new contractors to the Fund. For the avoidance of doubt, this would apply to contracts established by councils, Police & Fire authorities, and academy trusts (the letting authority).
- The contractor's pension contribution rate is set equal to the contribution rate payable by the letting authority. This will change from time to time in line with changes to the letting authority's contribution rate (i.e. following future actuarial valuations).
- The letting authority retains responsibility for variations in funding level, for instance due to investment performance, changes in market conditions, longevity, under its passthrough arrangement, irrespective of the size of the outsourcing.
- The contractor will meet the cost of additional liabilities arising from (non-ill health) early retirements and augmentations.
- Ill health experience will be pooled with the letting authority and the contractor will have the ill health insurance in place, usually as a requirement of the admission agreement.
- The contractor will not be required to obtain a full indemnity bond but may be required to obtain a capital cost bond to cover strain potential costs for those members age 55+. This is assessed on a "case by case" basis.
- Where an academy is the letting authority, the Fund will expect the academy to ensure and confirm that the outsourcing complies with the requirements set out in the 'DfE Academy Trust LGPS Guarantee policy' (which can be viewed on the GOV.UK website at this link) before permitting the contractor into the Fund.
- There will be no notional transfer of assets to the contractor within the Fund. This means that all assets and liabilities relating to the contractor's staff will remain the responsibility of the letting authority during the period of participation.
- At the end of the contract (or when there are no longer any active members participating in the Fund, for whatever reason), the admission agreement will cease and no further payment will be required from the contractor (or the letting authority) to the Fund, save for any outstanding regular contributions and/or invoices relating to the cost of early retirement strains and/or augmentations or Fund recharges. Likewise, no "exit credit" payment will be required from the Fund to the contractor (or letting authority).
- The terms of the pass though agreement will be documented by way of the admission agreement between the administering authority, the letting authority, and the contractor.
- All existing admission agreements are unaffected by this policy.

The principles outlined above are the default principles which will apply; however, the letting authority may request the specific details of a particular agreement to differ from the principles outlined above. The administering authority is not obliged to agree to a departure from the principles set out in this policy but will consider such requests and engage with the letting authority to reach agreement.

3 Policy and process

3.1 Compliance

Adherence to this policy is the responsibility of the relevant responsible service manager for any given outsourcing.

The administering authority and the Fund actuary must always be notified that an outsourcing has taken place, regardless of the number of members involved.

3.2 Contribution rates

The contribution rate payable by the contractor over the period of participation will typically be set equal to the total employer contribution rate payable by the letting authority. This means that the contractor's contribution rate will change when the letting authority rate changes.

Alternatively, the administering authority may wish to pursue a fixed rate with the contractor (subject to the agreement of the letting authority).

3.3 Risk sharing and cessation valuation

The letting authority will retain the risk of the contractor becoming insolvent during the period of admission and so no indemnity bond will be required from contractors participating in the Fund on a passthrough basis. The letting authority is effectively guaranteeing the contractor's participation in the Fund.

A cessation valuation is required when a contractor no longer has any active members in the Fund. This could be due to a contract coming to its natural end, insolvency of a contractor or the last active member leaving employment or opting out of the LGPS.

Where a passthrough arrangement is in place, the Fund assets and liabilities associated with outsourced employees are retained by the letting authority. At the end of the admission, the cessation valuation will therefore record nil assets and liabilities for the ceasing employer and therefore that no cessation debt or exit credit is payable to or from the Fund.

The contractor will be required to pay any outstanding regular contributions and/or unpaid invoices relating to the cost of (non-ill health) early retirement strains, augmentations or professional fees at the end of the contract. If the contractor does not pay, it becomes the letting authority's liability.

However, in some circumstances, the winning bidder will be liable for additional pension costs that arise due to items over which it exerts control. The risk allocation should be agreed between the contractor and letting authority before the contract commences and should be appropriately detailed in the service agreement and legal documentation.

The details of any risk sharing agreements should be shared with the administering authority to ensure the correct funding treatment is applied. There may be additional actuarial, legal and professional fees to administer such agreements for which the letting authority and/or the contractor would be liable to pay.

3.4 Accounting valuations

Accounting for pensions costs is a responsibility for individual employers.

It is the administering authority's understanding that contractors may be able to account for such pass-through admissions on a defined contribution basis and therefore no formal FRS102 / IAS19 report may be required (contractors are effectively paying a fixed rate and are largely indemnified from the risks inherent in providing defined benefit pensions).

As the letting authority retains most of the pension fund risk relating to contractors, it is the administering authority's understanding that these liabilities (and assets) should be included in the letting authorities' FRS102 / IAS19 disclosures.

The letting authority and contractor should seek approval from their auditor of the proposed accounting treatment in the first instance.

3.5 Application

Letting authorities may request terms which differ from those set out in this policy and any such request will be considered by the administering authority.

3.6 Process

The procurement department at each letting authority that has responsibility for staff/service outsourcing must be advised of this policy. The process detailed below must be adhered to by the letting authority and (where applicable) the winning bidder.

- **Tender Notification** - The letting authority must publicise this passthrough policy as part of its tender process to bidders. This should confirm that the winning bidder will not be responsible for ensuring that the liabilities of outsourced employees are fully funded at the end of the contract, and that the winning bidder will only be responsible for paying contributions to the Fund during the period of participation and meeting the cost of (non-ill health) early retirement strains and the cost of benefit augmentations (assuming the terms of this policy are adhered to). It should also advise the employer contribution rate as detailed in paragraph 3.2.

- **Initial notification to Pension Team** – The letting authority must contact the administering authority when a tender (or re-tender) of an outsourcing contract is taking place and staff (or former staff) are impacted. The administering authority must be advised prior to the start of the tender and the letting authority must also confirm that the terms of this policy have been adhered to.

- **Confirmation of winning bidder** – The letting authority must immediately advise the administering authority of the winning bidder.

- **Request for winning bidder to become an admitted body** – The winning bidder (in combination with the letting authority), should request to the administering authority that it wishes to become an admitted body within the Fund.

- **Template admission agreement** – a template admission agreement will be used for admissions under this policy. It will set out all agreed points relating to employer contribution rate, employer funding responsibilities, and exit conditions. Only in exceptional circumstances, and only with the prior agreement of the Administering authority, will the wording within the template agreement be changed. All admission agreements must be reviewed (including any changes) by the administering authority and possibly its legal advisors.

- **Post commercial contract** – Once the admission agreement has been signed, the winning bidder is then able to enter the Fund. NB, the letting authority must ensure that the commercial contract is also signed.

- **Signed admission agreement** - Signing of the admission agreement can then take place between an appropriate representative of the winning bidder, the lead finance officer of the letting authority, and the administering authority. It is at this point the Fund can start to receive contributions from the contractor and its employee members (backdated if necessary).

- **Admitted body status** – The letting authority will advise the contractor of its requirements and responsibilities within the Fund.

3.7 Costs

Contractors being admitted to the Fund under a passthrough agreement will be required to meet the cost of this, which includes (but is not limited to) the actuarial fees incurred by the administering authority.

4 Related Policies

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

The treatment of new employers joining the Fund is set out in the in the Funding Strategy Statement, specifically "Section 5 – What happens when an employer joins the Fund?"

The treatment of employers exiting the Fund is set out in the Funding Strategy Statement, specifically "Section 6 – What happens when an employer leaves the Fund?"

Appendix G – Academies policy

1 Introduction

The purpose of this policy is to set out the administering authority's funding principles relating to academies and Multi-Academy Trusts (MATs).

1.1 Aims and Objectives

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

- to state the approach for the treatment and valuation of academy liabilities and asset shares on conversion from a local maintained school, if establishing as a new academy or when joining or leaving a MAT
- to state the approach for setting contribution rates for MATs
- to outline the responsibilities of academies seeking to consolidate
- to outline the responsibilities of academies when outsourcing

1.2 Background

As described in Section 5.2 of the FSS, new academies join the Fund on conversion from a local authority school or on creation (eg newly established academies, Free Schools, etc). Upon joining the Fund, for funding purposes, academies may become stand-alone employers or may join an existing MAT.

Funding policy relating to academies and MATs is largely at the Fund's discretion, however guidance on how the Fund will apply this discretion is set out within this policy.

1.3 Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 (as amended) contains general guidance on Scheme employers' participation within the Fund which may be relevant but is not specific to academies.

There is currently a written ministerial guarantee of academy LGPS liabilities, which was reviewed in 2022.

Academy guidance from the Department for Education and the Ministry of Housing, Communities and Local Government may also be relevant.

2 Statement of Principles

This Statement of Principles covers the Fund's approach to funding academies and MATs. Each case will be treated on its own merits but in general:

- the Fund will seek to apply a consistent approach to funding academies that achieves fairness to the ceding councils, MATs and individual academies.
- the Fund's current approach is to treat all academies within a MAT as a single employer (effectively operating as a funding pool where all pension risks are shared).
- academies must consult with the Fund prior to carrying out any outsourcing activity.
- the Fund will generally not consider receiving additional academies into the Fund as part of a consolidation.

3 Policies

3.1 Admission to the Fund

As set out in section 5.2 of the FSS:

Asset allocation on conversion

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 its 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%.

Contribution rate

New academy contribution rates are based on the current funding strategy (set out in section 2 of the FSS) and the transferring membership. If an academy is joining an existing MAT within the Fund then it may pay the MAT contribution rate (which may or may not be updated as a result - see below).

3.2 Multi-academy trusts

Asset tracking

The Fund's current policy is to pool assets (and liabilities) of all the academies within a MAT. Once an academy joins a MAT the individual asset share of that academy is merged into the MAT and no longer tracked individually.

Contribution rate

The MAT is treated as a 'full funding risks' pool meaning that all academies within the MAT pay the same contribution rate to the Fund and all membership experience is shared across the MAT (ie full cross-subsidy exists).

Any transferring academy will pay the certified contribution rate of the MAT it is joining. At the discretion of the Fund, the MAT's contribution rate may be revised by the Fund actuary to allow for impact of the transferring academy joining.

Academies leaving a MAT

If an academy(ies) leaves a MAT, it is not generally possible (or practical) to identify the ex-employees of the transferring academy, therefore all deferred and pensioner members will remain with the MAT. The notional funding position of the transferring academy will be removed from the MAT before being transferred. This calculation will be carried out under the same principles as new academy conversions (as described below and per section 5.2 of the FSS).

Liabilities for transferring active members will be calculated (on the ongoing basis) by the Fund actuary on the day before the academy transfers. Liabilities relating to the transferring academy's former employees (ie members with deferred or pensioner status) remain with the MAT.

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

The MAT's estimated funding level will be based on market conditions on the day before the transfer.

3.3 Merging of MATs (contribution rates)

If two MATs merge during the period between formal valuations, the new merged MAT will pay the higher of the two certified individual MAT rates until the rates are reassessed at the next formal valuation (NB where one or both MATs are paying a monetary secondary contribution rate these will be converted to a % of pay for the purposes of determining the new merged contribution rate).

Alternatively, as set out in the Fund's contribution review policy and as per Regulation 64 A (1)(b) (iii) the MAT may request that a contribution review is carried out. The MAT would be liable for the costs of this review.

3.4 Cessations of academies and multi-academy trusts

A cessation event will occur if a current academy or MAT ceases 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 as described in 3.2 above.
- In all other circumstances, and following payment of any cessation debt, section 7.4 of the FSS would apply.

3.5 Academy consolidations

If an academy or MAT is seeking to merge with another MAT outside of the Fund they would need to seek approval from the secretary of state to consolidate their liabilities (and assets) into one LGPS fund. It is the Fund preference that academies do not seek to consolidate.

Where a direction has been granted the Fund does not generally accept academy consolidations into the Fund. The Fund will provide the necessary administrative assistance to academies seeking to consolidate into another LGPS fund, however the academy (or MAT) will be fully liable for all actuarial, professional and administrative costs.

3.6 Outsourcing

An academy (or MAT) may outsource or transfer a part of its services and workforce via an admission agreement to another organisation (usually a contractor). The contractor becomes a new participating Fund employer for the duration of the contract and transferring employees remain eligible for LGPS membership.

The contractor will pay towards the LGPS benefits accrued by the transferring members for the duration of the contract, but ultimately the obligation to pay for these benefits will revert to the academy (or MAT) at the end of the contract.

It is the Fund's preference for the contractor's contribution rate to be set equal to the letting academy's (or MAT's) total contribution rate.

It is critical for any academy (or MAT) considering any outsourcing to contact the Fund initially to fully understand the administrative and funding implications. The academy should also read and fully understand the Fund's admissions / passthrough policy.

In some cases, it is necessary to seek approval from Department for Education before completing an outsourcing (including seeking confirmation that the guarantee provided to academies will remain in place for the transferring members). In particular, the Fund expects the academy to ensure and confirm that the outsourcing complies with the requirements set out in the 'DfE Academy Trust LGPS Guarantee policy' (which can be viewed on the GOV.UK website at this link) before permitting a contractor into the Fund

3.7 Accounting

Academies (or MATs) may choose to prepare combined FRS102 disclosures (eg for all academies within a MAT). Any pooling arrangements for accounting purposes may be independent of the funding arrangements (eg academies may be pooled for contribution or funding risks but prepare individual disclosures, or vice versa).

4 Related Policies

The Fund's approach to admitting new academies into the Fund is set out in the Funding Strategy Statement, specifically "Section 5 – What happens when an employer joins the Fund?"

- Contribution policy
- Cessation policy

Appendix H – Contribution reviews

Policy on contribution reviews

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 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.

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 & Adjustments 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.
- where an employer has failed to pay contributions or has not arranged appropriate security as required by the administering authority.

The Fund would not normally consider a rate review within 12 months of new rates being prepared as part of the standard triennial valuation exercise.

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 I – Cessation policy

Policy on cessations

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 authority).

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 Ministry of Housing, Communities and Local Government 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 have 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. The Fund's normal policy is that this cessation debt is paid in full in a single lump sum within 28 days of the employer being notified.

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).

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).

The Fund may consider withholding any surplus where an employer has chosen to exit the Fund prematurely.

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:

Type of employer	Cessation exit basis	Responsible parties for unpaid or future deficit emerging
Local Authorities, Police, Fire	Low risk basis[1]	Shared between other Fund employers
Colleges & Universities	Low risk basis	Shared between other Fund employers
Academies	Low risk basis	DfE guarantee may apply, otherwise see below
Admission bodies (TABs)	Ongoing basis[2]	Letting authority (where applicable), otherwise shared between other Fund employers
Admission bodies (CABs)	Low risk basis	Shared between other Fund employers (if no guarantor exists)
Designating employers	Low risk basis	Shared between other fund employers (if no guarantor exists)

[1]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.

[2]Where a TAB has taken, in the view of the administering authority, action that has been deliberately designed to bring about a cessation event (e.g. stopping future accrual of LGPS benefits), then the cessation valuation will be carried out on a low-risk basis.

Cessation of academies and multi-academy trusts (MATs)

A cessation event will occur if a current academy or MAT ceases 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.

Further details are included in the Fund's Academies Policy.

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.

Spreading the exit payment could increase the cost due to lost investment return in the period.

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 exiting employer would be required to provide the Fund with detailed financial information to support its request.
- The Fund would take into account the amount of any security offered and seek actuarial, covenant and legal advice in all cases.
- The Fund proposes 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.
- Where appropriate, cases may be referred to the Pensions Committee for consideration and considered on its individual merit. Decisions may be made by the Chair in consultation with officers if an urgent decision is required between Committee meetings.

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, in the event that spreading of payments will create a high risk of bankruptcy for the exiting employer, the Fund may exercise its discretion to set up a deferred debt agreement as described in Regulation 64 (7A)).

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 enrols 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 Authority) 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

The principles below will be considered as part of the exit credit determination. However, they are designed only to provide an indication of how decisions are likely to be made and do not fetter the Fund's discretion over its decision. Each potential exit credit determination will be considered by the Fund on its own merits, and the Fund will make its discretionary decision on that basis.

Admitted bodies

i. No exit credit will 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/letting authority. 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 be payable to any admission body who participates in the Fund via the mandated pass through approach. For the avoidance of doubt, whether an exit credit is payable to any admission body who participates in the Fund via the "Letting employer retains pre-contract risks" route is subject to its risk sharing arrangement, as per paragraph iii) below.

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/letting authority 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 on a low risk basis (because no guarantor is in place), then any exit credit will normally be paid in full 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 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 pension manager, 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 have always been based on ongoing assumptions then this may suggest that these are also appropriate assumptions for exit credit purposes (subject to the other considerations outlined within this policy). Equally, a shorter than usual funding time horizon or lower than usual probability of success parameter may reflect underlying commercial terms about how responsibility for pension risks is split between the employer and its guarantor. For the avoidance of doubt, each exiting employer will be considered in the round alongside the other factors mentioned above.

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 letting authority 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.

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