



## **Cumbria Pension Fund – Fund Policy Document**

### **FUNDING STRATEGY STATEMENT (FSS)**

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

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

The Funding Strategy Statement and accompanying policies were approved by the Cumbria Pensions Committee held on 16 September 2025 and have been updated to reflect the Local Government Pension Scheme Regulations 2013. The policy was subsequently consulted on with the Fund Employers and will be reviewed at least every three years.

### **Contents and Guide to the Funding Strategy Statement (FSS) and Policies**

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

- A. Purpose of the Fund and the FSS**
- B. Key funding principles**
- C. Employer events**

This document also sets out the Fund’s detailed policies in the following key areas. However, the Administering Authority reserves the right to apply a different approach in any area at its sole discretion, where this is deemed to be in the best interests of the Fund. Such cases will be determined by the Director of Resources (S151 Officer) and notified to both the Pensions Committee and relevant employer(s).

Please contact Cumbria Pension Fund at [pensions@westmorlandandfurness.gov.uk](mailto:pensions@westmorlandandfurness.gov.uk) for any queries relating to the FSS or Fund policies below.

## **1. Demographic Assumptions (Appendix A)**

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

## **2. Deficit Recovery Plans (Appendix B)**

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

## **3. Surplus Treatment (Appendix C)**

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

## **4. Admission Policy for New Employers (Appendix D)**

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

## **5. Termination Policy, Flexibility for Exit Payments and Deferred Debt Agreements (Appendix E)**

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

## **6. Review of Employer Contributions Between Valuations (Appendix F)**

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

## **7. Covenant Assessment and Monitoring Policy (Appendix G)**

The Fund's approach to assessing employer covenant and the associated risks is set out [here](#).

## **8. Roles and Responsibilities of Key Parties (Appendix H)**

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

## **9. Glossary (Appendix I)**

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

## **SECTION A: PURPOSE OF THE FUND AND THE FSS**

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### **Aim and Objectives of the FSS**

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

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

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

### **Integrated Risk Managed Strategy**

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

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

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

### **The Regulations**

The Local Government Pension Scheme Regulations 2013 (“the 2013 Regulations”), the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (“the 2014 Transitional Regulations”) and the Local Government Pension Scheme (Management and Investment of Funds) Regulations

2016 (all as amended) (collectively: “the Regulations”) provide the statutory framework from which the Administering Authority is required to prepare a FSS.

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

### **The Solvency Objective**

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

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

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

### **Long-Term Cost Efficiency**

Employer contributions are also set in order to achieve long-term cost efficiency.

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

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

When formulating the funding strategy, the Administering Authority has taken into account these two key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary’s Department (GAD) must, following

an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the “solvency” of the Fund and “long term cost efficiency” of the Scheme so far as it relates to the Fund.

### **Purpose of the FSS**

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

- To establish a clear and transparent fund-specific strategy which will identify how employers’ pension liabilities are best met going forward by taking a prudent long-term view of funding those liabilities
- To establish contributions at a level to “secure the solvency of the pension fund” and the “long term cost efficiency”
- To have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible. This is the context of the Fund’s aim to maintain as stable a rate of overall employer contributions (i.e. both primary and secondary employer contributions) as is possible whilst securing the solvency of the Fund and its long-term cost efficiency

The intention is for this strategy to be both cohesive and comprehensive for the Fund as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

<b>The aims of the Fund are to:</b>
<ul style="list-style-type: none"><li>• Ensure that sufficient resources are available to meet all liabilities as they fall due</li><li>• Manage employers’ liabilities effectively and enable employer contribution rates to be kept at a reasonable and affordable cost to the taxpayers and the scheduled, resolution and admitted bodies</li><li>• Achieve and maintain Fund solvency and long-term cost efficiency, which should be assessed in light of the profile of the Fund now and in the future</li></ul>

- Maximise the returns from investments within reasonable risk parameters taking into account the above aims

**The purpose of the Fund is to:**

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

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

### **Monitoring and Review of the FSS**

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

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

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

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

- If there has been a material change in the affordability of contributions and/or employer(s) financial covenant strength which has an impact on the FSS
- Recommendations from MHCLG/GAD

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

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

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

## **SECTION B: KEY FUNDING PRINCIPLES**

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### **Funding Target**

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

The results of the 2025 valuation show the liabilities to be 124% covered by the assets, with the funding surplus of 24%.

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

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

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

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

The Fund balances contributions and reliance on investment return by:

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

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

## Managing Risk

Funding risks are considered as part of the Fund's overarching risk management framework and strategy. This FSS covers those risks specific to the funding strategy of the pension Fund or employer covenant and the measures taken to mitigate those risks. Recent developments alongside the management of other risks (including operational risks) are set out in the Fund's risk register which is reviewed regularly at each Pensions Committee meeting and is presented in the Oversight and Governance Update reports available [here](#).

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

## Identification of Risks and Counter-Measures

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

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

<b>Financial Risks and Mitigations</b>
<p>The financial risks are as follows:-</p> <ul style="list-style-type: none"><li>• Economic outlook moves at variance with assumptions</li><li>• Investment markets fail to perform in line with expectations</li><li>• Investment Fund Managers fail to achieve performance targets over the longer term</li><li>• Asset re-allocations in volatile markets may lock in past losses</li><li>• Pay and price inflation is significantly more than anticipated</li></ul>

- Future underperformance arising as a result of participating in the larger asset pooling vehicle therefore restricting investment decisions
- An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements.
- Experience is worse than assumed when assessing the termination liabilities for exiting employers whose liabilities are orphaned in the Fund and are underwritten by all remaining employers. This would lead to additional costs falling on other employers

### **Mitigations**

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

In practice the extent to which these risks can be reduced is limited. However, the Fund's asset allocation is kept under constant review and the performance of the investment managers is regularly monitored.

The Fund also takes a prudent approach to ongoing funding with additional protections built in in relation to termination liabilities where these liabilities are orphaned in the Fund (see **Appendix E**).

### **Demographic Risks and Mitigations**

The demographic risks are as follows:-

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

- The level of take-up of the 50:50 option at a higher level than built into the actuarial assumptions

### **Mitigations**

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

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

### **Governance and Employer Risks and Mitigations**

Governance and employer risks are as follows:-

- The quality of membership data supplied by the employer is inaccurate or incomplete or there is a breakdown in processes for updating the information, each of which would result in liabilities being under or overstated
- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements) with the result that contribution rates are set at too low a level
- Administering Authority not advised of an employer closing to new entrants, something which would normally require an increase in contribution rates
- An employer ceasing to exist with insufficient funding or a bond which is not adequate, leaving remaining employers to fund the benefits
- A material deterioration in employer short-term affordability or longer-term viability
- Changes in the Committee and Local Pension Board membership

### **Mitigations**

For these risks to be minimised much depends on information being supplied to the Administering Authority by the employing bodies. Arrangements are strictly controlled and monitored, but in most cases the employer, rather than the Fund as a whole, bears the risk.

## **Regulatory Risks and Mitigations**

The key regulatory risks are as follows:-

- Changes to Regulations, e.g. changes to the benefits package, retirement age, potential new entrants to scheme
- Changes to national pension requirements and/or HMRC Rules
- Political risk that the guarantee from the Department for Education for Academies and Further Education bodies is removed or modified along with the operational risks as a consequence of the potential for a large increase in the number of academies in the Fund due to Government policy
- Uncertainty about the Government's policy with regard to Higher Education bodies, with the result that the Fund is unsure about the security within which these bodies operate and may therefore be taking undue risk when setting contribution rates
- Pooling changes which impact the Fund's ability to control investment risk/return profile effectively which impacts on contribution affordability or stability

### **Mitigations**

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

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

## **Climate Change**

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

The impact of climate risk cannot be measured with certainty. For the current valuation the Fund has considered different climate change scenarios at the Whole Fund level relative to the baseline position, assuming that the funding assumptions

are played out on a best estimate basis. The projections are meant to illustrate the different elements of risk under four climate change scenarios based on the current strategic allocation. The scenarios are not meant to be predictors of what may happen and are only a small subset of a very wide range of scenarios that could arise depending on the global actions taken in relation to climate change.

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

- A. Considering the adequacy of the prudence margins required in the actuarial assumptions, to mitigate against material downside events. The prudence in the funding strategy is predominantly reflected in the valuation discount rate
- B. The surplus buffer retained in the fund, above which surplus may be run down by means of employer contribution reductions

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

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

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

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

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

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

1. **Rapid Transition** – there is a highly ambitious low carbon policy and rapid technology transition. Sudden divestments in 2026 to align with the Paris Agreement goals have disruptive effects on financial markets with sudden repricing

followed by stranded assets and a sentiment shock. Average temperature increase is assumed to stabilise at 1.6°C from 2050 onwards.

*Fund impact: Under this scenario there is a significant (c10%) reduction in the Fund's funding level in 2026 compared to a "baseline" projection, as markets absorb and reflect the transition costs. However, physical risks are limited under this scenario, and by 2037 the funding level moves above the long-term baseline (remaining there thereafter).*

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

*Fund impact: Initially there is little to no impact on the funding position until 2030, when market pricing reduces the funding level by almost 15%. A recovery swiftly follows where the bulk of this fall is reversed, but the funding level never fully recovers to baseline levels, remaining 1%-6% lower for the period to 2065*

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

*Fund impact: A small correction (c5%) in 2030 is followed by a much larger fall in 2039 when the funding level drops to c12% below the baseline projection. The position gradually deteriorates from there, and by 2065 the position is 20%-25% below the baseline. Under this scenario the more challenging economic conditions could also lead to a reduction in the ability of employers to support the Fund.*

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

*Fund impact: Here the pattern is similar to the limited transition but with bigger impacts – a c5% funding level "gap" by 2030, 20% by 2039 and c35% by 2065. There may also be significant strain on employer affordability / covenant, reducing the employer's ability to support the Fund further if required.*



The actuarial assumptions (versus the best estimate) include a level of prudence aiming to protect against adverse experience in the future, which may be, for example, as a result of climate risk. This is in line with the objective for future contribution stability and the Fund has concluded that the level of prudence is currently sufficient recognising that this also must be balanced against employer affordability. However, any climate related impacts will potentially put significant stress on the funding plan, especially if this occurs at the same time as other adverse events and so needs to be monitored over time.

### **Main Actuarial Assumptions and Actuarial Method**

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

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

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

### **Financial Assumptions**

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

<b>Financial Assumptions</b>	<b>2025 valuation assumption</b>	<b>Description</b>
Investment return / discount rate	5.35% p.a. (past) and 4.85% p.a. (future)	Derived from the expected return on the Fund assets based on the long-term strategy set out in the ISS, including appropriate margins for prudence. For the 2025 valuation this is based on an assumed return of 2.75% p.a. above CPI inflation (past service) and 2.25% p.a. above CPI inflation (future service). This real return will be reviewed from time to time based on the investment strategy, market outlook and the Fund's overall risk metrics.
Inflation (Retail Prices Index)	3.3% p.a.	The investment market's expectation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date (reflecting the profile and duration of the whole Fund's accrued liabilities).
Inflation (Consumer Prices Index)	2.6% p.a. (includes an adjustment of 0.7% p.a.)	RPI inflation (above) reduced to reflect the expected long-term difference between RPI and CPI (reflecting the profile and duration of the Fund's accrued liabilities and 2030 RPI reform), adjusted to remove the estimated impact of supply/demand distortions as well as Bank of England forecasts.  The adjustment to RPI will be reviewed from time to time to take into account any market factors which affect estimated CPI inflation.
Salary increases	4.1% p.a.	Pre 1 April 2014 benefits (and 2014 to 2022 McCloud underpin) - the assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.5% p.a. over the appropriate CPI inflation assumption as described above. This includes allowance for promotional increases.
Pension Increases and Deferred Revaluation	Assumed to be in line with the CPI inflation assumption above (noting that pension increases cannot be negative as pensions cannot be reduced). At the 2025 valuation, an adjustment has been made to the liabilities to allow for the known inflation for the period September 2024 to March 2025, and where material, allowance will continue to be made for inflation as it emerges when assessing funding positions between valuations.	
Indexation of CARE benefits	Assumed to be in line with the CPI inflation assumption above (noting that for active members indexation of CARE benefits can be less than zero).	
<b>Expenses</b>	General expenses are met out of the Fund, in accordance with the Regulations. This is allowed for by adding 0.8% of pensionable pay to the contributions from participating employers. This is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.	

## Demographic Assumptions

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

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

As an indication of impact, we have set out the life expectancies at age 65 based on the 2022 and 2025 assumptions:

<b>Membership Category</b>	<b>Male Life Expectancy at 65 (2022 assumptions)</b>	<b>Female Life Expectancy at 65 (2022 assumptions)</b>
Pensioners	22.2	24.6
Actives aged 45 now	24.0	26.7
Deferreds aged 45 now	23.5	26.1

<b>Membership Category</b>	<b>Male Life Expectancy at 65 (2025 assumptions)</b>	<b>Female Life Expectancy at 65 (2025 assumptions)</b>
Pensioners	21.4	24.0
Actives aged 45 now	22.6	25.5
Deferreds aged 45 now	21.7	24.8

For example, a male pensioner, currently aged 65, would be expected to live to age 86.4. Whereas a male active member aged 45 would be expected to live until age 87.6. The difference reflects the expected increase in life expectancy over the next 20 years in the assumptions above.

The other demographic assumptions have been updated to reflect LGPS experience, Fund specific experience (where sufficient data is available), and national trends. The assumptions are set on best estimate principles – i.e. do not include any margins for prudence.

The detailed assumptions adopted are set out in **Appendix A**.

## **Actuarial Method**

The actuarial method to be used in the calculation of the solvency funding target is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the scheme on the basis that the overall age profile of the active membership will remain

stable. (See the section on setting employer contributions below for variations to this for “closed” employers)

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

## **Employer Pooling and Risk Sharing Arrangements**

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

- Multi-Academy Trusts (MATs) can opt to be pooled, with a single funding position covering all academies and a single contribution rate
- For admitted bodies, in some instances there will be the option of a “pass-through” arrangement, where some/all of the pension risks are retained by the letting employer. In these cases the admitted body may be pooled with the letting employer
- It is expected that all outsourcings by academies / MATs / FE Colleges will be pass-through arrangements to comply with the requirements of the DfE guarantee

See the admission policy (**Appendix D**) for further details on the above.

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

## **Employer Asset Shares**

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

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

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

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

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

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

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

In formulating a Fund's overall investment strategy, the liability profile and funding position in relation to the liabilities of the Fund as a whole (assessed on an appropriate and prudent basis), is taken into account, alongside the Fund's overall risk appetite across funding, investment and covenant.

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

<b>Asset/Investment</b>	<b>Target allocation %</b>	<b>Range %</b>
Public Equity	35%	30-40%
Private Equity	7%	3-11%
<b>TOTAL EQUITY</b>	<b>42%</b>	<b>35-49%</b>
Government Index-Linked Bonds	16%	13-19%
Private Debt / Credit	10%	6-14%
Multi Asset Credit	8%	5-11%
<b>TOTAL FIXED INCOME</b>	<b>34%</b>	<b>29-39%</b>
Infrastructure	12%	11-19% (combined)
Climate & UK Opportunities	3%	
Property	8%	5-11%
<b>TOTAL REAL ASSETS</b>	<b>23%</b>	<b>18-28%</b>
<b>CASH</b>	<b>1%</b>	<b>0-4%</b>
	<b>100%</b>	

### **How Employer Contributions are Calculated**

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

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

### **Primary Rate of Employer Contributions (Future Accrual) - Method and Assumptions**

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

The Regulations state the desirability of keeping the primary rate (or “future service” rate) as stable as possible. Also, primary contributions are paid in respect of benefits built up in future, and as such are not linked to current market conditions (in the same way that the funding target is). It is for these reasons that a different discount rate (from that used to calculate the funding target) is used.

Primary contribution rates will vary between employers due to:

- Member profile (age, gender, etc). In particular, primary rates tend to be higher for older members (as their contributions are invested for a shorter period and so are expected to earn less returns)
- Whether the employer is open or closed to new entrants. Open rates are calculate using the Projected Unit method which broadly assumes the age profile will remain unchanged. Closed rates use the Attained Age method, which assumes the age profile will increase. As a result, employers who move from open to closed would usually see an increase in primary rate in the absence of other factors

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

Currently no benefits are insured, either externally or via an internal insurance arrangement. The contributions for any employer may be varied as agreed by the Actuary and Administering Authority to reflect any benefit costs being insured internally or externally in future.

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

### **Secondary Rate of the Employer Contribution**

Secondary contributions are contributions in addition to the primary contributions which are typically in respect of any deficit or surplus run-off depending on the employer's funding position and the fund's policy in these areas. The secondary rate is calculated using the same assumptions as the funding target.

### **Deficit Recovery Plans – Key Principles**

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

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

The Fund's policy on setting the deficit recovery plan is set out in **Appendix B**.

### **Surplus Run-Off Plans – Key Principles**

The Fund applies a funding buffer for employers in surplus, meaning an element of surplus is retained in the Fund to increase contribution stability, as the buffer can be

used to absorb the impact of negative experience in future and limit the need for contribution increases.

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

The Fund's policy on setting the surplus run-off plan is **Appendix C**.

### **Payment of Contributions – Employer Options**

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

- Employers facing an increase in total contributions may be allowed to phase in increases so that the target rate is paid in year three. This is achieved by an adjustment to the secondary contributions
- Employers may have the option of prepaying deficit contributions for a reduction
- Prepayment of employee contributions, primary contributions and surplus offsets (i.e. negative secondary contributions) is not permitted.

### **Payment of Additional Contributions**

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

- Awards of additional pension
- Strain costs arising from retirement before normal retirement age on unreduced benefits

Employers are generally required to meet all costs of early retirement strain by immediate capital payments into the Fund. However, with the agreement of the Administering Authority, they may be allowed to make provision for them at the time of the actuarial valuation and include the costs within their funding plan.

### **Conflicts of Interest**

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

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

### **Actuarial Valuation**

As required by the Regulations (Regulation 62 of the LGPS Regulations 2013), the Fund must obtain an actuarial valuation as at 31 March every 3 years. The effective date of the most recent actuarial valuation is 31 March 2025. In addition, the FSS must be formerly reviewed every 3 years and in advance of the completion of the valuation (which must be within 12 months of the valuation effective date) or such later date as the Secretary of State may agree.

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

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

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

The actuarial valuation report:

- Shows the aggregate funding position for the Fund as a whole as compared with the previous valuation
- Sets out a summary of the key reasons for the change in funding position and a summary of key inter-valuation experience
- Includes sensitivity analysis and commentary to support understanding of the key risks
- Summarises the key financial and demographic assumptions adopted alongside the underlying membership and investment data as at the valuation date

- Includes a primary and secondary contribution rate for the Fund as a whole, equal to the pay weighted average rates for percentage of pay contributions, and the total amount for cash adjustments
- Includes information required by the Government Actuary's Department for the purpose of undertaking its Section 13 assessment.

### **Review of Employer Contributions Between Valuations**

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

The Fund's policy on undertaking an interim review of contributions is set out in **Appendix F**.

### **Fund Approach to Managing Surpluses and Deficits**

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

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

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

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

### **Employer Covenant**

Covenant is the employer's legal obligation and financial ability to meet their defined benefit obligations in the Fund now and in the future.

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

The Fund has established a proportionate approach to covenant assessment and monitoring where required, and this is set out in **Appendix G**.

As set out in **Appendix F**, a material change in employer covenant may also trigger the need to consider a contribution rate review.

The Fund's over-riding responsibility will be to act in the best interests of all Fund members and their participating employers.

## **Guarantors**

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

There are two common types of guarantee:

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

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

- The level of surplus offset available – employers with a funding surplus but termination deficit are not generally eligible for surplus offsets (see **Appendix C**)
- The assumptions used to assess any deficit/surplus on termination – for employers without a full guarantee, the Fund includes additional prudence in their termination assessment, to protect the ongoing employers as they would underwrite the termination liabilities going forward (see **Appendix E**)
- Whether a bond or other security is required to support the admission.

## **Admission Bodies**

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

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

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

Further information on this is set out in **Section C** of this FSS and the Fund's policy in this area is set out in **Appendix D**.

## **Pension Administration Strategy**

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

Alongside the triennial actuarial valuation, there will be a number of occasions where the Actuary will use updated membership data to carry out its calculations, as referenced in the next section e.g. terminations (where an exit debt/credit is to be assessed in full), inter-valuation contribution rate reviews, new admissions, bulk transfers, and in some cases accounting calculations where a significant event has occurred during the accounting period.

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

## **SECTION C: EMPLOYER EVENTS**

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

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

### **Joining the Fund**

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

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

### **Initial Funding Calculations**

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

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

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

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

### **Initial Contribution Rate Assessment**

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

- The pay levels of the transferring group (and so the implied employee contribution rate)
- Whether the new body will be open, or closed to new entrants
- Whether any funding deficit is ultimately transferred and the period over which it is expected to repay that deficit.

### **Conversion to Academy Status**

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

### **New Employers Joining Multi-Academy Trusts (MATs)**

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

In cases where numerous academies are operated by the same managing Trust, the Fund allows the MAT to pool all constituent academies. This decision would have implications for all future actuarial calculations – an overall funding position (once pooled the position cannot later be separated) and “average” contribution requirement would apply. Also, pension fund accounting would only be produced for the entire body.

Full details of the Fund's policy for new academies joining a MAT is set out in **Appendix D**.

### **Preparing for Exit and Events Which May Trigger Termination**

Unless entering a Deferred Debt Agreement (see below), an employer ceases to participate in the Fund when the last active member leaves the Fund or when a suspension notice ends. The employer then becomes an "exiting employer" under the Regulations. In this situation the Fund is required to obtain an actuarial valuation of that employer's liabilities in respect of the benefits of the exiting employer's current and former employees, along with a termination contribution certificate setting out whether an exit payment is due to the Fund or a credit is payable to the employer.

The high-level principles and considerations for exiting employers are set out below. The details of the calculation of the exit position are contained within the termination policy **Appendix E**.

### **Payment of Exit Payments and Exit Credits**

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

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

### **Deferred Debt Agreements**

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

## **Suspension Notices**

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

## **Partial Terminations**

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

The Fund’s default position is that such arrangements are not permitted.

## **Bulk Transfers**

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

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

They may involve some of an employer’s members (and so some assets and liabilities) transferring to a new Fund or employer, or the employer’s whole position (and so all assets, liabilities and membership) transferring to or from another LGPS Fund – this is typically only done under a Secretary of State direction order.

## **General Principles**

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

- The LGPS Regulations provide the framework if a Fund employer has an external bulk transfer of staff and the Fund will adhere to the Regulations

- The Fund's primary objective will be to minimise the risk to Fund and other Fund employers – particularly where a transfer will result in “orphaned” members/liabilities. Subject to this, where applicable and practical, the Fund will consider other relevant factors including views of the relevant employer(s) and the circumstances of the transfer
- Generally, there will be no cross-subsidy between the employers participating in the bulk transfer and all other Fund employers. So, for outgoing/incoming transfers, assets and liabilities are deducted from/added to the transferring employer's balance sheet, with no adjustment applied to other employers in the Fund
- It is the employer's responsibility to notify the Fund that a transfer is required and the relevant details. As the asset transfer and potentially also the provision of benefits will be reliant on the data used, it is critical that the data provided is complete and accurate. Neither the Fund nor Fund Actuary will be responsible for errors or issues arising due to the provision of incomplete or inaccurate data
- Once notified, the Fund will facilitate the bulk transfer by liaising with the relevant parties as required
- All Fund costs relating to any bulk transfer will be met by the relevant Fund employer(s).

### **Intra-Fund Bulk Transfers**

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

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

### **External Bulk Transfers**

For external transfers to other LGPS Funds, the assets transferred to/from the Fund will be calculated in line with the underlying LGPS Regulations. This may involve a

calculation of Cash Equivalent Transfer Values, or where the number of members transferring is sufficient, the methodology for determining the asset calculation will need to be agreed between the Fund actuaries (with input from the administering authority, and potentially the relevant Fund employer, as required).

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

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

## **APPENDIX A: DEMOGRAPHIC ASSUMPTIONS**

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

### **Life Expectancy Assumptions**

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

<b>Current Status</b>	<b>Retirement Type</b>	<b>Mortality Table</b>
Male Annuitant	Normal health	105% S4PMA CMI 2024 1.5%
Female Annuitant	Normal health	96% S4PFA_M CMI 2024 1.5%
Male Annuitant	Dependant	129% S4PMA CMI 2024 1.5%
Female Annuitant	Dependant	110% S4PFA_M CMI 2024 1.5%
Male Annuitant	Ill health	107% S4IMA CMI 2024 1.5%
Female Annuitant	Ill health	110% S4IFA CMI 2024 1.5%
Male Annuitant	Future dependant	129% S4PMA CMI 2024 1.5%
Female Annuitant	Future dependant	110% S4PFA_M CMI 2024 1.5%
Male Active	Normal health	110% S4PMA CMI 2024 1.5%
Female Active	Normal health	99% S4PFA_M CMI 2024 1.5%
Male Active	Ill health	164% S4IMA CMI 2024 1.5%
Female Active	Ill health	179% S4IFA CMI 2024 1.5%
Male Deferred	All	124% S4PMA CMI 2024 1.5%
Female Deferred	All	109% S4PFA_M CMI 2024 1.5%
Male Active / Deferred	Future dependant	142% S4PMA CMI 2024 1.5%
Female Active / Deferred	Future dependant	146% S4PFA_M CMI 2024 1.5%

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

## **Other Demographic Assumptions**

### **Pre-Retirement Mortality**

Based on LGPS wide experience, the assumption is 75% (male)/65% (female) of the DxL08 table with CMI\_2023 1.5% (standard parameters).

### **III-Health Retirement**

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

<b>Age</b>	<b>Male</b>	<b>Female</b>
25	0.01%	0.01%
35	0.02%	0.01%
45	0.07%	0.04%
55	0.29%	0.16%

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

### **Withdrawal**

Based on LGPS wide experience – sample rates below:

<b>Age</b>	<b>Male</b>	<b>Female</b>
25	20.3%	22.4%
35	5.1%	6.3%
45	2.5%	3.9%
55	0.8%	1.2%

### **Commutation**

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

### **Proportions Married/Civil Partnerships**

Based on LGPS wide experience – sample rates below:

<b>Age</b>	<b>Male</b>	<b>Female</b>
25	27%	37%
35	64%	66%
45	69%	67%
55	68%	65%
65	69%	62%
75	69%	53%

## Early Retirement

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

<b>Age</b>	<b>% retiring per annum</b>
60	10%
61	8%
62	8%
63	8%
64	8%
65	100%

## Discretionary Benefits

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

## **APPENDIX B: DEFICIT RECOVERY PLANS**

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

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

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

### **Employer Deficit Recovery Plan – Key Principles**

Recovery periods will be set by the Fund on a consistent basis across employer categories where possible. This will determine the minimum contribution requirement, with employers being free to select a shorter recovery period (and so higher contributions) if they wish.

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

Employers may have the option of prepaying deficit contributions as a single lump sum, either annually or triennially, in return for a reduction. The reduction will reflect the assumed rate of investment returns (determined using the past service discount rate).

The Administering Authority retains ultimate discretion in applying these principles, and it may be deemed necessary to deviate under exceptional circumstances. Employers will be notified of their individual deficit recovery period as part of the provision of their individual valuation results.

<b>Category</b>	<b>Target Average Deficit Recovery Period</b>	<b>Derivation</b>
Scheme Employers / open non-admitted bodies	10 years	Determined by reducing the period from the preceding valuation by at least 3 years, subject to a minimum of 10 years.
Open Admitted Bodies	10 years, normally subject to a maximum of the remaining contract period	

Category	Target Average Deficit Recovery Period	Derivation
Closed Employers	Lesser of remaining contract period (where applicable) and future working lifetime of the membership	Determined based on the average future working life of the membership.
Employers with a limited participation in the Fund.	Determined on a case by case basis.	Length of expected period of participation in the Fund.

## **APPENDIX C: SURPLUS TREATMENT**

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If the funding level of an employer is above a certain level (the “buffer” – see below), then the additional surplus may be used to reduce an employer’s overall contributions for a fixed time period.

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

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

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

### **Employer Surplus Usage – Key Principles**

The Fund is now in a stronger funding position at the 2025 actuarial valuation which presents a set of unique issues and opportunities to consider. Some employers are significantly in surplus so a policy which allows for an employer’s ability to support its liabilities in the long term is important.

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

### **Contribution Sustainability Buffer**

At each triennial valuation, the Fund will determine the surplus for each employer (excess assets above the accrued liabilities, as calculated by the Fund Actuary). The Fund will also determine the “buffer” which will be retained in the Fund to protect against adverse experience leading to unsustainable contributions levels.

When considering the level of buffer, the Actuary has considered the pathway of the funding and future contribution outcomes based on a range of economic and financial scenarios to “test” the sustainability of the funding strategy over a number of valuation cycles for the Fund as a whole (although this may vary by employer where in the Fund’s view this is warranted). The Fund will then utilise analysis as part of its decision making on the level of any buffer.

As well as considering the financial and demographic outlook, the Fund will take into account:

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

When determining employer contributions, only the surplus in excess of their surplus buffer will then be run-off over time via a reduction to the future service contribution rate (“the contribution off-set”).

Note – for non-taxpayer-backed employers the off-set will also be limited based on any termination surplus if lower (if there is a termination deficit then no surplus offsets will be paid).

The buffer will be expressed as a funding target as a percentage of the assets. The contribution off-set will be expressed as a £ amount for each year of the certificate. Total contributions (i.e. future service contributions less the surplus off-set) will be subject to a minimum of zero to comply with the LGPS regulations and actuarial certification.

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

### **Spreading Period**

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

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

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

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

## **APPENDIX D: ADMISSION POLICY FOR NEW EMPLOYERS**

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This document details the Fund's policy on admissions into the Fund and forms part of the Funding Strategy Statement of the Fund.

Where this document refers to Westmorland and Furness Council ("the Council"), then this shall mean Westmorland and Furness in carrying out its function as the Administering Authority of the Fund.

Where this document refers to a Participating Employer, it shall mean a Fund Employer under either Part 1 or Part 2 of Schedule 2 of the Local Government Pension Scheme Regulations 2013 ("Regulations"), or an Admission Body (formerly defined as a transferee admission body or a community admission body) under Part 3 of Schedule 2 of the Regulations.

### **Fund Discretion**

The below sets out the Fund's standard approach. However, where it is deemed to be appropriate the Director of Resources (Section 151 Officer) the Fund reserves the right to apply a different approach in any area at its sole discretion, where this is deemed to be in the best interests of the Fund.

### **Background – Admission Bodies**

Admission Bodies are a specific type of Participating Employer under the Regulations that govern the Fund. They do not automatically qualify for admission and must instead satisfy certain criteria as set out in the Regulations. They also need a written Admission Agreement to be admitted and participate in the Fund.

The Fund may enter into an Admission Agreement with any Admission Body that satisfies the criteria under the Regulations. An Admission Agreement will enable all (or any specified class) of the Admission Body's employees to be members of the Fund and participate in the Fund.

Any application for Admission Body status must be submitted to the Fund in good time to enable actuarial information to be obtained and the legalities associated with admission to be dealt with. Applications should preferably be submitted at least six months before the proposed transfer or admission date.

There are two broad types of Admission Body – those providing a commercial service to a Fund Employer (formerly transferee admission bodies) and those providing other

services with sufficient links to a Fund Employer (formerly community admission bodies).

### **Policy Statement – Admission Bodies**

In addition to the requirements under the Regulations, the following principles will be adopted in relation to Admission Bodies:

- (a) applications will be approved if:
  - (i) all the conditions of participation set out in the addendum are met; and
  - (ii) the body falls into the category of “Admission Body” highlighted above and does not have any of the disqualifying criteria set out below; and
  - (iii) the body has a guarantee/indemnity from another Fund Employer (note that for commercial agreements (i.e. former transferee admission bodies) the transferring Fund Employer will be expected to act as guarantor); and
  - (iv) for non-commercial agreements (i.e. former community admission bodies) the body exists as a result of being specifically set up by a local authority(s).
  
- (b) applications will not be approved if:
  - (i) the application falls into the “Admission Body” category; and
  - (ii) the body has one or more of the following disqualifying criteria attached to it:
    - the body does not meet the conditions of participation detailed at the appendix; or
    - the provisions in respect of risk assessments as set out later in this document have not been complied with; or
    - the transferring Fund Employer is a Participating Employer within another LGPS Fund; or
    - the body does not have a guarantee/indemnity from another Fund Employer.
  - (iii) for non-commercial agreements (i.e. former community admission bodies) there is a known limited lifespan or fixed contract term of admission to the Fund.
  
- (c) the Admission Body will need to enter into a separate Admission Agreement in respect of each contract.

### **Admission Bodies Providing Services to Academies / MATs / FE Colleges**

Academies, Multi Academy Trusts (MATs) and Further Education Colleges within the Fund are covered by the DfE LGPS Guarantee. This provides protections to the Fund if the Academy / MAT / College exits the Fund and cannot pay the termination payment

required under the Fund's policies. The guarantee also covers Admitted Bodies that are providing services to these employers, providing certain conditions are met.

Therefore, as well as the criteria set out above for Admission Bodies, where the guarantor Fund Employer is an academy / MAT / College the Fund will require that they follow DfE guidance such that the guarantee also applies to the Admission Body. The Fund's position is that:

- This will typically mean the admission is closed to new entrants and the contract between the academy / MAT and the Admission body is a "pass-through" arrangement (see below for detail on pass-through arrangements). The Fund may require evidence that the admission is indeed a pass-through arrangement as defined by DfE
- Where the case is not a pass-through arrangement, confirmation from DfE that the arrangement is approved and the guarantee still applies will be required

Where neither of the above is met, the Administering Authority will normally reject the application.

Where a pass-through arrangement applies, the Admission Body will normally be treated as a separate employer for funding purposes, in line with the treatment for any other Fund employer. The exception to this would be if a pooled arrangement was being operated (the next section below).

### **Pass-Through Arrangements Including Pooling**

A pass-through arrangement is an agreement between an Admission Body (usually a contractor providing services to a Fund Employer e.g. an Academy) and a guarantor Fund Employer (e.g. the Academy), such that the guarantor Fund Employer retains some or all of the risks associated with the admission.

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

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

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

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

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

- No separate assets or liabilities for the Admission Body will be identifiable. The Fund will not separately track the position, which would be fully pooled with the guarantor
- As such, the deficit / surplus relating to the Admission Body will not be available when the admission ends, and will remain the responsibility of the Fund Employer
- No separate contribution rate for the Admission Body will be calculated, with the guarantor being responsible for ensuring the overall certified rates are paid in respect of the pool as a whole. The Fund would expect that the contribution rate for the Admission Body is agreed as part of their contract with the guarantor (for example the Admission Body pays the guarantor's future service rate).

## **Guarantees and Risk Assessments**

The Admission Body must secure a guarantee which is acceptable to the Fund from either:

- (a) a person who funds the Admission Body in whole or part;
- (b) a person who owns or controls the exercise of the functions of the Admission Body; or
- (c) the Secretary of State in the case of an Admission Body which is established under any enactment providing that enactment enables the Secretary of State to make financial provision for that Admission Body.

The factors the Fund may use to establish whether a guarantee would be an acceptable alternative are:

- (a) the likelihood of premature termination occurring in respect of that Admission Body;

- (b) the accountability of any Fund employer in respect of that Admission Body;
- (c) whether if premature termination did occur the liabilities of the Admission Body would be assumed by other participating employers in the Fund, or would be contained by other employers in that Admission Body's group;
- (d) any assessment commissioned by the Admission Body on which the Fund can rely to determine whether the guarantor is suitable; and
- (e) advice from its solicitors as to whether the wording of the guarantee is acceptable.

The Administering Authority may, at the point of admission and subsequently as needed, also require an assessment of risk arising on premature termination of the admission agreement. This may be undertaken by the Fund's actuary, or by the Admission Body with review from the Fund actuary.

In determining the acceptability as to the level of risk, the Fund will be mindful of its core principle which is that each Admission Body is expected to be accountable for its own costs on premature termination and any costs associated with that should not become the liability of third-party bodies who participate in the Fund.

In certain circumstances the Fund may be willing to enter into an indemnity or bond in place of a body acting as guarantor, however the Fund may determine when this is the appropriate option, taking into account the risk assessment.

### **Decisions Regarding Admissions**

Decisions regarding the admission of Admission Bodies will be delegated to the Section 151 Officer.

### **Policy Statement – Academies and MATs**

Academies are eligible to (and are required to) join the Fund under Schedule 2 Part 1 of the regulations. On conversion a new academy is allocated the liabilities of the transferring members, and assets such that they receive a share of the ceding Authority's deficit or surplus (and a share of any funding buffer where applicable). The

surplus / deficit is set so that their certified secondary contributions at the point of transfer are the same before and after conversion (with the same recovery period).

The academy is then allocated their own contribution rate reflecting their membership, assets and liabilities. (Note that on conversion a temporary rate may be set, to apply until they are formally assessed at the next actuarial valuation).

## **MATs**

When a new or existing academy joins a MAT that has elected to pool, the assets and liabilities allocated to the pool are calculated as above. The employer contribution rate for the MAT will be unchanged until the next valuation. At the next valuation, the MAT's pooled contribution rate would be updated to include an allowance for the new academy.

Where MATs are pooled:

- A single contribution rate for the MAT as a whole will be calculated. It will be for the MAT to decide how this is allocated amongst the individual academies
- No separate assets or liabilities for the individual academies will be identifiable, as the Fund will not separately track each position
- If an academy leaves a MAT for another MAT or to become a stand alone academy, then the actuary will identify the share of the pool's assets that will transfer to the new employer. The default is that this will be based on the same approach for allocating assets to an academy on conversion as noted above. Where the academy is exiting the Fund, then the position will be assessed in line with the Fund's approach to bulk transfers (see **section C** of this FSS).

## **Policy Statement – Other Fund Employers**

The principle that the Fund wishes to pursue is that of responsibility by each employer under the Fund for the liabilities of its employees or former employees who have liabilities under the Fund (other than for pooled arrangements as set out above).

In this regard, the Fund may:

- Make an initial assessment of the financial standing of the new Fund employer, to determine its ability to support the funding requirements under the Fund
- Take into account any such assessment, the Fund may seek any one or more of the following terms of agreement with the new Fund employer, including:
  - a guarantee/indemnity from another Fund employer

- agreement that another Fund employer will assume the orphan liabilities relating to the new Fund employer, either in whole or in part;
- further information on the employees transferring to them, financial standing/plans and relationship with previous Fund employer
- a revised Rates and Adjustments certificate for the new Fund employer to take into account the financial risk of failure

There should be flexibility to consider all relevant circumstances, but the Fund's objective is to seek appropriate funding from all Fund employers, so that on exit all orphaned liabilities will be funded or subsumed by another Fund employer.

# **Admission Policy**

## **Addendum**

### **Conditions of Participation for Admission Bodies**

#### **1. PAYMENTS**

- 1.1. The Admission Body shall pay to the Administering Authority (AA) for credit to the Scheme such contributions and payments as are due under the Regulations in respect of those employees who are eligible to participate in the Scheme.
- 1.2. The Admission Body shall pay to the AA for credit to the Scheme the employee and employer pension contributions on a monthly basis in arrears. The payment must be paid to the AA within 19 calendar days of the end of each month in which the pension contributions have been deducted.
- 1.3. The employer contribution rate required to be paid by the Admission Body will be assessed by an actuary appointed by the AA.
- 1.4. The Admission Body shall pay to the AA for credit to the Scheme any deficit contribution or offset any surplus against employer contributions as assessed by the Actuary during each financial year the payments fall due.
- 1.5. The Admission Body shall pay to the AA for credit to the Scheme any additional or revised contributions due as result of additional membership or pension being awarded or as a result of outstanding liabilities due should the admission agreement terminate. Payment will be due within 30 calendar days of receipt of a written request from the AA.
- 1.6. Any employees' Additional Voluntary Contributions ("AVCs") or Shared Cost Additional Voluntary Contributions ("SCAVCs") are to be paid direct to such AVC body and/or AVC insurance company selected by the AA. Contributions shall be paid within 19 calendar days of the end of each month in which the contributions have been deducted.
- 1.7. Where the Admission Body certifies that:
  - 1.7.1. an eligible employee is retiring by reason of redundancy or in the interests of efficiency; or
  - 1.7.2. an eligible employee is voluntarily retiring with the Admission Body's consent before age 60; or

- 1.7.3. the deferred benefit of an eligible employee is brought into payment with the Admission Body's consent either (i) on or after age 55 and before age 60 where they were a member of the LGPS on or before 31st March 2008; or (ii) on or after age 55 and before age 65 where they became a member on or after 1st April 2008; and immediate benefits are payable under the Regulations the Admission Body shall pay to the AA for credit to the Scheme the sum notified to them in writing by the AA as representing the actuarial strain on the Scheme resulting from the immediate payment of benefits. Such sum to be paid within 30 calendar days of receipt of the written notification.
- 1.8. The Admission Body shall indemnify the AA against any financial penalty and associated costs and expenses incurred by the AA or by the Scheme arising from any failure by the Admission Body to comply with the terms of the Admission Agreement entered into by it, the Regulations or any overriding legislation. Such payment is to be paid within 30 calendar days of receipt of a written request from the AA.
- 1.9. If any sum payable under this Agreement or the Regulations by the Admission Body to the AA or to the Scheme has not been paid (in whole or in part) within the payment period specified (or otherwise in accordance with the Regulations) the AA may require the Admission Body to pay interest calculated in accordance with Regulations on the amount remaining unpaid.

## **2. ADMISSION BODY'S UNDERTAKINGS**

- 2.1. The Admission Body undertakes:
- 2.1.1. to provide or procure to be provided such information as is reasonably required by the AA relating to the Admission Body's participation in the Fund including (but not limited to) details of the pay and final pay of each eligible employee;
- 2.1.2. to comply with the reasonable requests of the AA to enable it to comply with the requirements of the Occupational Pension Schemes (Disclosure of Information) Regulations 1996 (as amended);
- 2.1.3. to adopt the practices and procedures relating to the operation of the Fund as set out in the Regulations, the AA's Administration and Communications Policy and in any employer's guide or employer information published or held on the AA's pension administrator website;
- 2.1.4. to formulate and publish within 3 calendar months of commencement a statement concerning the Admission Body's policy on the exercise of its

functions or discretions in accordance with the requirements of the Regulations and to keep such policy under review;

- 2.1.5. to notify the AA of each occasion on which it exercises a discretion under the Regulations and the manner in which it exercises that discretion;
- 2.1.6. to notify promptly the AA in writing of any material change in the terms and conditions of employment of any of the eligible employees which affects entitlement to benefits under the LGPS and of any termination of employment;
- 2.1.7. to immediately notify the AA and the Fund employer in writing of any matter which may affect or is likely to affect its participation in the LGPS and of any actual or proposed change in its status which may give rise to a termination of the admission agreement or in the case of a transferee admission body which may give rise to a termination of the Contract between the Admission Body and the Fund employer including but not limited to take-over, reconstruction, amalgamation, liquidation, receivership or a change in the nature of its business or constitution;
- 2.1.8. not to do anything which would prejudice the LGPS' status as a registered pension scheme; and
- 2.1.9. to make available for public inspection at the AA and the Fund employer's office a copy of the Admission Agreement.

### **3. ACTUARIAL VALUATIONS**

- 3.1. The AA may periodically and shall at least on a triennial basis obtain from an actuary a certificate specifying in the case of the Admission Body the percentage or amount by which in the actuary's opinion the employer's contribution rate should be increased or reduced. This is with a view to ensuring that as far as is reasonably possible the value of assets of the Fund in respect of current and former eligible employees is neither materially more nor materially less than the anticipated liabilities of the Fund.
- 3.2. Upon termination of this Agreement the AA must obtain:
  - 3.2.1. an actuarial valuation of the liabilities of the Fund in respect of current and former Eligible Employees as at the date of termination; and
  - 3.2.2. a revision of any Rates and Adjustments Certificate within the meaning of the Regulations showing the revised contributions due from the Admission Body.

- 3.3. The costs of obtaining the actuarial valuation and certificates (or revisions to them) as required by the AA in respect of current and former eligible employees (other than the triennial valuation) shall be paid by the Admission Body within 30 calendar days of receipt of written notification of such costs from the AA.

#### **4. RISK ASSESSMENT**

- 4.1. The Admission Body shall carry out to the satisfaction of the AA, taking account of actuarial advice, of the level of risk arising on premature termination of the provision of services or assets by reason of insolvency, winding up or liquidation of the Admission Body.
- 4.2. The Admission Agreement shall provide that the Admission Body secures a guarantee in a form satisfactory to the AA from:
- 4.2.1. a person who funds the Admission Body in whole or part;
- 4.2.2. a person who owns or controls the exercise of the functions of the Admission Body; or
- 4.2.3. the Secretary of State in the case of an Admission Body which is established under any enactment, and whether that enactment enables the Secretary of State to make financial provision for that Admission Body.

#### **5. TERMINATION**

- 5.1 The Agreement shall terminate at the end of the notice period upon the AA or the Admission Body giving a minimum of three calendar months' notice in writing to terminate this Agreement to the other party or parties to this Agreement.
- 5.2 The Agreement shall terminate automatically on the earlier of:
- 5.2.1 the date of the expiry or earlier termination of the Contract (if the admission is of a fixed term); or
- 5.2.2 the date the Admission Body ceases to be an Admission Body for the purposes of the Regulations; or
- 5.3 The Agreement may be terminated by the AA by notice in writing to the Admission Body taking immediate effect in the event of:
- 5.3.1 the insolvency winding up or liquidation of the Admission Body;

- 5.3.2 any breach by the Admission Body of any of its obligations under this Agreement provided that the AA shall if the breach is capable of remedy first afford to the Admission Body the opportunity of remedying that breach within such reasonable period as the AA may specify;
- 5.3.3 the failure by the Admission Body to pay any sums due to the AA or to the Fund within the periods specified in this Agreement or in the Regulations or in any other case within 30 calendar days of receipt of a written notice from the AA requiring the Admission Body to do so; or
- 5.3.4 the failure by the Admission Body to renew or adjust the level of any bond/indemnity which is required to be in place.

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## **APPENDIX E: TERMINATION POLICY, FLEXIBILITY FOR EXIT PAYMENTS AND DEFERRED DEBT AGREEMENTS**

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This document details the Fund's policy on:

- The methodology for assessment of a termination payment on the cessation of a Participating Employer's participation in the Fund
- Use of repayment plans and Deferred Debt Agreements
- Considerations for current employers

Where this document refers to Westmorland and Furness Council ("the Council"), then this shall mean Westmorland and Furness in carrying out its function as the Administering Authority of the Fund.

Where this document refers to a Participating Employer, it shall mean a Fund Employer under either Part 1 or Part 2 of Schedule 2 of the Local Government Pension Scheme Regulations 2013 ("Regulations"), or an Admission Body (formerly defined as a transferee admission body or a community admission body) under Part 3 of Schedule 2 of the Regulations.

### **Fund Discretion**

The below sets out the Fund's standard approach. However, where it is deemed to be appropriate by the Director of Resources (Section 151 Officer) the Fund reserves the right to apply a different approach in any area at its sole discretion, where this is deemed to be in the best interests of the Fund.

### **Background**

When an Admission Agreement comes to its end (including where the participating employer ceases to have any active members), or is prematurely terminated for any reason, employees may transfer to another employer, either within the Fund or

elsewhere. If this is not the case the employees will retain pension rights within the Fund i.e. either deferred benefits or immediate retirement benefits.

In addition to any liabilities for current employees, the Fund will also usually retain liability for payment of benefits to former employees, i.e. to existing deferred and pensioner members.

In the event that unfunded liabilities arise that cannot be recovered from the Admission Body, these will normally fall to be met by the Fund as a whole (i.e. all employers) unless there is a bond/indemnity, guarantor or successor body within the Fund.

### **Policy Statement – Admission Bodies**

Other than for pooled Admission Bodies (see the admission policy in **Appendix D**), a termination assessment will always be carried out for “outgoing” Participating Employers in accordance with Regulation 64 of the Regulations. The actuarial cost of this will be charged to the outgoing Participating Employer, together with any other related costs of the termination.

In line with Regulation 64, this assessment will determine the exit payment due from, or the exit credit due to, the outgoing Participating Employer. Where the calculations show that there is a surplus of the Participating Employer’s assets over its liabilities within the Fund, the Administering Authority has discretion when determining what if any exit credit is payable. Where the calculations show that there is a deficit, the Administering Authority has discretion when determining whether the exit payment is paid immediately, or whether it is either suspended, spread over an agreed period, or whether the Participating Employer may continue to participate in the Fund under a “Deferred Debt Agreement”.

As such, the treatment of assets and liabilities at termination will be as follows:

#### **(a) Admission Bodies without a Fund guarantor / a guarantor of last resort only**

Where an Admission Body does not have a guarantee/indemnity from another Fund Employer who would subsume the assets and liabilities on termination, and no successor body exists to take responsibility for the liabilities (including those in respect of former members) then:

- Any surplus on termination would be refunded to the Participating Employer via payment of an exit credit
- Any deficit will be recovered from the outgoing Participating Employer or bond where appropriate

After this, the remaining orphan liabilities and the related assets in the Fund will be subsumed by the Fund as a whole.

This section includes employers with a guarantor of last resort. A guarantor of last resort is one who would cover any element of the termination deficit that the outgoing Participating Employer cannot meet but would not take on subsequent responsibility for the orphaned liabilities. A guarantor of last resort would not be entitled to receive any surplus which as noted above would be paid to the Participating Employer. Note that this would apply to Academies and Further Education Colleges who have a guarantee of last resort from the Department for Education.

### **(b) Admission Bodies with a Fund guarantor**

Where an Admission Body has a guarantee/indemnity from another Fund Employer or a successor body exists who will take responsibility for the liabilities (including those in respect of former members) then, on notification of the Admission Body's intention to leave the Fund:

- The Fund will write to the Admission Body and guarantor requesting written evidence of any risk sharing agreements (such as a pass-through arrangement – see the admission policy in Appendix D) within 14 days of notification
- Where evidence is provided, the Fund will follow the risk sharing protocols set out within the agreement between the two parties. Where there is no clarity within the risk sharing agreement as to the treatment of deficits or exit credits on termination, the Fund will determine the amount of any deficit due or exit credit payment due and to which party, having regard to any relevant considerations and taking account of the employers' exposure to risk
- Where no evidence is provided, the Fund will pursue the Admission Body for any deficit or pay any exit credits to the Admission Body. Where the Admission Body defaults on any liabilities due to the Fund, the guarantee will be called in from the guarantor
- If the outgoing Admission Body disputes the treatment, then the two parties will be expected to reach an agreement amongst themselves, and if they cannot then the Fund's IDR process should be used. The Pensions Ombudsman has jurisdiction to hear complaints if the IDR fails to resolve the dispute

This treatment is in line with the regulations and is designed to ensure that the treatment on termination reflects the treatment of funding risk in the admission, and to

avoid a situation where a Participating Employer can potentially benefit from a surplus without bearing responsibility for a deficit (or vice versa).

### **(c) Treatment of exit payments and exit credits**

Regulation 64 requires the Fund to make notifications to the following parties prior to payment of any exit credit:

- The Participating Employer
- The guarantor employer and / or outsourcing employer within the Fund (where relevant)

In practice, as referred to above, the Fund will seek to agree with the relevant parties the treatment of the assets and liabilities (and so any potential exit credit) in advance of the termination assessment taking place.

Once agreed, any exit credits will be paid within six months of the exit date, or any such longer period that may be agreed with the outgoing Participating Employer.

Where there is an exit payment due from or exit credit due to the guarantor / outsourcing employer then the normal Fund policy will be for that employer to subsume the relevant assets and liabilities without an immediate one-off payment being made by or to the Fund. As part of this arrangement, the Fund may adjust that employer's regular contributions in recognition of the exit position. The Fund may also depart from this policy if it feels it to be appropriate (e.g. it may insist on an immediate payment from the guarantor/outsourcing employer).

### **(d) Notification of termination**

In many cases, termination of the admission is an event that can be foreseen, for example, because the organisation's operations may be planned to be discontinued.

In this case admission bodies are requested to open a dialogue with the Fund to commence planning for the termination as early as possible.

Where termination is disclosed in advance the Fund will liaise with the actuary and may introduce procedures to reduce the volatility risks to the debt amount in the run up to actual termination of the admission.

Further, the Fund may hold more frequent reviews of employer contribution rates in order to manage the gradual reduction of any pension deficit or surplus. This will

enable the Fund to gradually manage the termination process, rather than call for one cessation payment.

### **(e) Funding basis for termination calculations**

The Fund's standard policy is that a termination assessment will be made based on a more cautious funding basis, (as defined in f) below). This is to strike a balance between:

- Protecting the other employers in the Fund. At termination, the Admission Body's liabilities may become "orphan liabilities" within the Fund, and there will be no recourse to the Admission Body if a shortfall emerges in the future (after the admission has terminated). A more cautious funding basis provides some protection against this
- Providing fair value to the outgoing Admission Body and preventing Admission Bodies being trapped in the Fund by an unaffordable deficit

The more cautious basis will be selected with the aim of achieving the above. Generally, this will be based on a "low risk" set of assumptions based on gilt yields, but should market conditions or other factors warrant then an alternative approach may be adopted based on advice from the Fund's actuary.

This approach will be applied unless the Admission Body has a guarantor within the Fund, or a successor body exists to take over the Admission Body's liabilities (including those of former employees). In this case the valuation funding basis (as defined in (f) below) will be used.

### **(f) Valuation funding and low risk termination bases**

The valuation funding and low risk financial assumptions that applied at the most recent actuarial valuation date (31 March 2025) are set out below for illustration. However, these will be updated for each termination on a case-by-case basis to reflect:

- The prevailing market conditions at the relevant employing body's termination date
- Any changes made to the methodology used to derive these bases (the Fund will decide at what point any such changes take effect) as may be required to reflect a material change in risk or outlook, for example financial markets, demographic profile or regulatory changes.

<b>31 March 2025 assumptions</b>	<b>Valuation funding</b>	<b>Low Risk*</b>
Discount rate	5.35% p.a.	5.1% p.a.
CPI price inflation	2.6% p.a.	3.1% p.a.**
Pension increases/indexation of CARE benefits	2.6% p.a.	3.1% p.a.

*\*The actual assumptions applied will be based on the profile of the individual employer – the above assumptions broadly reflect the profile of the Fund as a whole*

*\*\*For lower risk terminations, an underpin of the funding discount rate (suitably updated based on advice from the Actuary) will be applied, and the “Inflation Risk Premium” of 0.5% is removed from the derivation of the CPI assumption*

All demographic assumptions will be the same as those adopted for the most recent actuarial valuation (the Fund will decide at what point any post-valuation changes to the demographic assumptions take effect), except for the low-risk basis in relation to the life expectancy assumption. Given these financial assumptions do not protect against future adverse demographic experience a higher level of prudence will be adopted in the life expectancy assumption. Currently, the assumed rate of long-term longevity improvement will be 2% p.a. rather than the 1.5% p.a. used for funding purposes, but this may be reviewed as necessary based on actuarial advice.

The final liabilities will include an estimate for the capitalised value of the future administrative and advisory expenses that the Fund will incur when providing the benefits to the relevant members (excluding those who will remain active with another Fund employer).

### **(g) Benefit changes**

Periodically changes are made to the Scheme benefits due to changes in Government policy, legislation or legal challenges. In some circumstances these may affect members accrued benefits, which will in turn affect liabilities and so termination positions. The Fund’s policy is:

- Where such changes are confirmed then they are allowed for as part of the termination assessment in line with the regulations
- Where such changes are proposed but not yet confirmed, the Fund will:
  - Take a view as to the likelihood that the changes will be implemented
  - Where the Fund expects the changes to be implemented, include an allowance in the termination position for the estimated impact of the changes, on the basis that if no allowance is included in the termination

assessment, then the Fund will not be able to recover the additional cost from the outgoing Admission body at a later date, and so this will fall to the other Fund Participating Employers.

#### **(h) Alternatives to immediate exit payment on termination**

The Fund's default policy is that on termination the Fund will assess the position in line with the above, and where an exit payment is due this will be required to be made immediately.

However, at the sole discretion of the Administering Authority, the following options may instead be applied:

- Suspension of the exit payment
- Spreading of the exit payment over an agreed period
- Instigation of a "Deferred Debt Agreement"

If a Participating Employer wants to use one of these options, they must make a request in writing covering the reasons why the option is appropriate, and provide any information subsequently requested by the Fund. Determining whether the options are available may take up to 6 months from receipt of any requested information, so it is important that employers make their request in good time.

Any costs (including necessary actuarial, legal and covenant advice) associated with assessing this will be borne by the Participating Employer, regardless of the ultimate decision.

The following policy and processes will be followed in line with the principles set out in the statutory guidance dated 2 March 2021.

#### **Partial Terminations**

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

The Fund's default position is that such arrangements are not permitted. The position would be reconsidered only in the event that a) the legal basis for such arrangements is established to the satisfaction of the Fund, after taking its own legal advice, and b)

it was deemed to be in the best interests of the Fund as a whole (which is not expected to be the case except in very exceptional circumstances).

### **Suspension Notice**

Under Regulation 64, the Fund may issue a "suspension notice" for up to 3 years, where, in the reasonable opinion of the Administering Authority, the Participating Employer is likely to admit at least one active member within the period covered by the suspension notice.

A suspension notice will only be issued where the Participating Employer can demonstrate that it is likely that a new member(s) will be admitted, and that the employer's covenant and funding position is such that the Fund will not be exposed to an unacceptable level of risk. The suspension notice may be withdrawn by the Fund at any time if the Fund believes the conditions on which it was issued are no longer applicable.

### **Spreading of Exit Payment**

The following process will determine whether an employer is eligible to agree a plan to spread their exit payment over a defined period:

1. The Administering Authority will firstly consider whether this is in the Fund's best interest. This decision will be based on a covenant review of the employer, to determine whether the exit debt is affordable at that time (based on advice from the Actuary, covenant and legal advisor as considered appropriate by the Administering Authority).
2. For this, the Administering Authority will request any information it deems necessary. This may include updated financial information, including management accounts, financial projections, and any other relevant information. If this is not provided, then spreading of the exit payment will not be permitted.
3. Depending on the length of the spread period, the size of the deficit, and the employer's covenant, the Fund may request security or other measures to support the payment plan. This may include non-uniform payments e.g. a lump sum up front followed by a series of payments over the agreed period.
4. If the Administering Authority's assessment confirms that the exit payment is not immediately affordable, it will engage in discussions about the potential spreading of the exit payment. As part of this, the following will be considered and agreed:

- a. The spreading period (this is subject to a 5 year maximum);
  - b. The initial and annual payments due and how these will change over the period;
  - c. The interest rates applicable (all late payments will have interest added), and how the costs associated with implementing the payment plan will be recovered;
  - d. The level and form of any security required (e.g. bond, escrow account, etc);
  - e. The Participating Employer's responsibilities over the period (e.g. supply of updated covenant information);
  - f. Under what circumstances the payment plan may be reviewed or immediate payment requested (e.g. where there has been a significant change in covenant or circumstances); and
  - g. The views of the Actuary, covenant, legal and any other specialists necessary.
5. The Administering Authority will then make a final decision on whether spreading is appropriate. Once the Administering Authority has reached its decision, the arrangement will be documented and any supporting agreements will be included.

### **Deferred Debt Agreement**

Instead of making the exit payment, an employer may request to continue to participate in the Fund with no contributing members and utilise a "Deferred Debt Agreement" (DDA).

The following process will determine whether the Fund and employer will enter into such an arrangement:

1. The Administering Authority will firstly consider whether this is in the Fund's best interest. This decision will be based on a covenant review of the employer, to determine whether the exit debt is affordable at that time (based on advice from the Actuary, covenant and legal advisor where necessary).
2. For this, the Administering Authority will request any information it deems necessary. This may include updated financial information, including management accounts, financial projections, and any other relevant information. If this is not provided, then a DDA will not be entered into by the Administering Authority.
3. The Fund may request security to protect the Fund before entering into such an arrangement. This could include a lump sum up front to reduce the size of the termination deficit.

4. If the Administering Authority's assessment confirms that the exit payment is not immediately affordable, it will engage in discussions with the employer about the potential format of a Deferred Debt Agreement using the template Fund agreement that will be based on the principles set out in the Scheme Advisory Board's separate guide (available on the SAB's website at [www.lgpsboard.org/index.php/empflexm](http://www.lgpsboard.org/index.php/empflexm)). As part of this, the following will be considered and agreed:
  - a. What security the Participating Employer can offer (generally a DDA will only be allowed where the Fund are confident the employer can support the arrangement on an ongoing basis, but in certain cases security may still be required). Provision of security may also result in a review of the recovery period and other funding arrangements;
  - b. The funding assumptions and investment strategy that would be applied to the employer;
  - c. The initial payment due (if any) and the updated secondary rate of contributions;
  - d. The financial information that will be required on a regular basis for covenant monitoring, and any other monitoring that will be required;
  - e. The responsibilities that would apply to the employer while they remain in the Fund;
  - f. What conditions would trigger changes to the recovery plan and also contributions (e.g. cash payment, provision of security)
  - g. What conditions would trigger changes to the DDA, including a cessation of the arrangement and an exit payment (or credit) becoming payable (e.g. removal of any security, a significant change in covenant, etc); and
  - h. The advice of the Actuary, covenant, legal and any other specialists necessary as determined by the Administering Authority.
5. The Administering Authority will then make a final decision on whether a DDA is appropriate and confirm the terms that are required.
6. Where a DDA is implemented, contribution requirements will continue to be reviewed as part of each actuarial valuation or in line with the DDA in the interim if any of the agreed triggers are met.

## **Policy Statement – Other Fund Employers**

For Fund employers the general overall policy is that the principles and procedures outlined above should apply, whilst recognising that there may be specific circumstances which dictate that more flexibility may be needed in some cases.

As has been mentioned, the principle that the Fund wishes to pursue is that of responsibility by each employer under the Fund for the liabilities of its employees or former employees who have liabilities under the Fund.

A termination assessment will always be carried out for “outgoing” Fund employers in accordance with Regulation 64 of the Regulations. The actuarial cost of this will be charged to the outgoing Fund employer, together with any other related costs of the termination.

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## **APPENDIX F: REVIEW OF EMPLOYER CONTRIBUTIONS BETWEEN VALUATIONS**

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This document details the Fund's policy on the review of employer contributions between formal actuarial valuations.

Where this document refers to Westmorland and Furness Council ("the Council"), then this shall mean Westmorland and Furness in carrying out its function as the Administering Authority of the Fund.

### **Fund Discretion**

The below sets out the Fund's standard approach. However, where it is deemed to be appropriate the Director of Resources (Section 151 Officer) the Fund reserves the right to apply a different approach in any area at its sole discretion, where this is deemed to be in the best interests of the Fund.

### **Background**

The Fund reviews the contribution requirements for all employers as part of each triennial actuarial valuation. However, Regulation 64A also allows for employer contributions to be assessed between valuations as follows:

1. The Administering Authority may review the contributions of an employer where there has been a significant change to the liabilities of an employer.
2. The Administering Authority may review the contributions of an employer where there has been a significant change in the employer's covenant.

An employer may request a review of contributions from the Administering Authority if they feel that either point 1 or point 2 applies to them.

### **Policy Statement**

The circumstances under which the Administering Authority will consider reviewing an employer's contributions are as follows:

- There has been a significant change to the employer's membership which will have a material impact on their liabilities.
- There has been a significant change in the employer's covenant.

The Administering Authority will not conduct a review where the funding position for an employer significantly changes solely due to a change in assets/actuarial assumptions

(this is not permitted under the regulations). However, changes in the assets would be taken into account if an employer cannot support its obligations to the Fund after a significant covenant change (as per 2 above).

The Administering Authority will consult with the employer prior to undertaking a review of their contributions including setting out the reason for triggering the review.

Where a review takes place, the result may be no change and so a continuation of the contributions already certified.

A rate review would generally only be undertaken within 6 months leading up to the next actuarial valuation Rates and Adjustments Certificate in exceptional circumstances. An example of this would be where there has been a material change in covenant that resulted in a material change in risk to the Fund. A material change in membership alone would not result in a review in this period.

The employer would be required to pay the costs related to any potential review conducted at their request (including where the Administering Authority ultimately decides a review is not appropriate). A maximum of 2 requests between actuarial valuation dates is permitted (except in exceptional circumstances and at the sole discretion of the Administering Authority). Where circumstances warrant, the Fund may also seek to recover costs in cases where the review is instigated by the Fund.

### **Scenarios Where Contributions May Be Reviewed**

Contributions may be reviewed if the Administering Authority becomes aware of any of the following scenarios. Employers will be notified if this is the case. Employers may also request a review if they believe either of these scenarios apply.

The Administering Authority will also consider the impact potential on other employers and the Fund as a whole when deciding whether to proceed.

### **Significant changes in the employer's membership**

This includes but is not limited to the following scenarios:

1. Significant changes to the employer's membership which will have a material impact on their liabilities, such as:
  - a. Employer restructuring
  - b. A significant transfer of staff to / from the employer from another Fund employer
  - c. A bulk transfer to / from the employer from another Fund
  - d. Other significant changes, e.g. due to redundancies, significant pay rises, ill health retirements or withdrawals
2. Two or more employers merging including insourcing and transferring

of services

3. An employer splitting into two or more separate employers

When assessing triggers under a) above, the Administering Authority will only consider a review if the change in liabilities is expected to be more than 5% of the total.

If the review proceeds, it will only take into account the impact of the change in liabilities (including if relevant any underfunding in relation to pension strain costs), and the resulting impact on the Primary and Secondary rate of contributions. Changes in asset values will not be considered (assuming the covenant is not deemed to be affected).

### **Significant changes in the employer's covenant**

This includes but is not limited to the following scenarios:

- a) Provision of, or any change to, any security, bond, guarantee or other form of indemnity by an employer to the Fund. Specifically, this includes provision of security to any other pension arrangement which reduces in any way the security provided to the Fund
- b) Material change in an employer's immediate financial strength or longer-term financial outlook (evidence should be available to justify this) including where an employer may cease to operate or become insolvent
- c) Any behavior that suggests a change in an employer's ability and/or willingness to pay contributions to the Fund.

Where there has been a significant change to the covenant, any review would include consideration of the updated funding position (both on an ongoing and termination basis) when considering if the employer can meet its obligations to the Fund.

Note that the Scheme Advisory Board has confirmed that Local Authorities are not eligible for contribution reviews under this scenario, as the combination of their taxpayer backing and legal obligation to pay certified contributions means they consider that there is no covenant risk to the Fund.

The Administering Authority may periodically undertake covenant monitoring exercises, either at Fund level or targeted at particular (groups of) employers. These exercises may identify the changes noted above. However, employers are expected to notify the Fund of any such changes, and in some circumstances (e.g. where a Deferred Debt Agreement is in place) employers will be required to do this via a separate agreement.

Additional information may be sought from the employer in order to determine whether a contribution review is necessary. This may include updated membership details,

annual accounts, budgets, forecasts and any specific details of restructure plans. As part of this, the Administering Authority will take advice from the Fund Actuary, covenant, legal and any other specialist adviser.

### **Process and Potential Outcome of a Contribution Review**

Where one of the above scenarios occurs, the Administering Authority will review and discuss with the employer the details of the event. However, the decision as to whether to proceed with a contribution review rests solely with the Administering Authority (taking advice from their Actuary, legal or covenant advisors if necessary). This specifically includes employer notified events.

For any potential review, the employer will be required to provide any required supporting information (and to outline the rationale and case for the review where they have requested it). Where suitable information is not provided, the Administering Authority may decide not to proceed or proceed on the basis of prudent assumptions in order to protect the Fund from potential risk.

The Administering Authority will consider whether it is appropriate to use updated membership data within the review (e.g. where the change in data is expected to have a material effect on the outcome).

As part of the review, it is possible that other parts of the funding strategy will also be reviewed in addition to the contributions. Potential outcomes of the review include:

- A change in primary and/or secondary contributions. Note that the result of the review may also be no change in contributions;
- Implementing security to improve the covenant to the Fund;
- A change in the investment strategy;
- A change in funding strategy;
- A change in the length of the recovery period.

The review of contributions may take up to 3 months from the date that the Fund receives all the required information from the relevant parties.

Any change to an employer's contributions will be implemented at a date set by the Fund. The Schedule to the Rates and Adjustments Certificate at the last valuation will be updated for any contribution changes.

As part of the process the Administering Authority will consider whether it is appropriate to consult any other Fund employers prior to implementing the revised contributions. Circumstances where the Administering Authority may consider it

appropriate to do so include where there is another employer acting as guarantor in the Fund, then the guarantor would be consulted on as part of the contribution review process.

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

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## **APPENDIX G: COVENANT ASSESSMENT AND MONITORING POLICY**

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This document details the Fund's policy on the review of the covenant of Fund employer(s) where required.

Where this document refers to Westmorland and Furness Council ("the Council"), then this shall mean Westmorland and Furness in carrying out its function as the Administering Authority of the Fund.

### **Fund Discretion**

The below sets out the Fund's standard approach. However, where it is deemed to be appropriate the Director of Resources (Section 151 Officer) the Fund reserves the right to apply a different approach in any area at its sole discretion, where this is deemed to be in the best interests of the Fund.

### **Background**

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

An assessment of employer covenant will be driven by the circumstances triggering the review, and may include, for example, a focus on determining the following:

- Type of body and its origins
- Nature and enforceability of legal agreements
- Whether there is a bond in place and the level of the bond
- Whether an alternative deficit recovery / surplus plan should be enforced, either at the next valuation or via an inter-valuation contribution review
- Whether there is an option to call in contingent assets
- Is there a need for monitoring of ongoing and termination funding ahead of the next actuarial valuation

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment can be vital.

## **Policy Statement**

The vast majority (c96%) of the Fund's liabilities are directly or indirectly taxpayer backed. As such, the Fund does not systematically monitor the covenant of the individual employers. Reviews instead being event driven, when:

- The Fund becomes aware of a potential increase in covenant risk for an employer
- The funding position assessed at the actuarial valuation indicates a need for closer scrutiny.

## **Risk Criteria**

Where covenant is assessed, the criteria upon which an employer should be reviewed could include:

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

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

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

## **Assessing Employer Covenant**

Where potential risks are identified, the employer's covenant will be assessed objectively and their ability to meet their obligations will be viewed in the context of the Fund's exposure to risk, based on publicly available information and/or information provided by the employer. The assessing (and potentially monitoring where this is deemed necessary) of covenant strength along with the funding position (including on the termination basis) enables the Fund to pre-empt employer funding issues and adopt a proactive approach.

In order to objectively assess the strength of an employer's covenant, adjacent to the risk posed to the Fund, a number of fundamental financial metrics will be reviewed to develop an overview of the employer's stability and a rating score will be applied using a Red/Amber/Green (RAG) rating structure.

In order to accurately assess employer covenant, it may be necessary for research to be carried out into employers' background, and for those employers to be contacted to gather as much information as possible. Employers will be required to provide all requested information.

The covenant assessment will be combined with the funding position to derive an overall risk score. Action may be taken if in the Fund's view these metrics suggest a risk to the Fund.

## **Frequency of Monitoring**

As noted above there is no systematic monitoring of employer covenant. However, the funding position and contribution rate for each employer will be reviewed as a matter of course with each triennial actuarial valuation. Following this there will be a period of employer engagement during which the Fund will seek to identify any potential covenant issues.

Where risks or concerns are identified in relation to an employer or a group of employers, Officers may apply a covenant assessment, instigate funding / covenant monitoring, and apply covenant risk management approaches (as described below) in relation to that employer / group of employers.

## **Covenant Risk Management**

The focus of the Fund's risk management is the identification and treatment of the risks. Mechanisms that will be explored with certain employers, as necessary, will include but are not limited to the following:

1. Parental Guarantee and/or Indemnifying Bond

2. Transfer to a more prudent actuarial basis for ongoing funding and contributions (e.g. the termination basis)
3. Shortened recovery periods / higher surplus reserve and increased cash contributions
4. Managed exit strategies
5. Contingent assets and/or other security such as escrow accounts.

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## **APPENDIX H: ROLES AND RESPONSIBILITIES OF KEY PARTIES**

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

### **The Administering Authority should:**

- Operate the Fund
- Collect employer and employee contributions, investment income and other amounts due to the Fund as stipulated in the Regulations
- Have an escalation policy in situations where employers fail to meet their obligations
- Pay from the Fund the relevant entitlements as stipulated in the Regulations
- Invest surplus monies in accordance the Regulations
- Ensure that cash is available to meet liabilities as and when they fall due
- Ensure benefits paid to members are accurate and undertake timely and appropriate action to rectify any inaccurate benefit payments
- Take measures as set out in the Regulations to safeguard the Fund against the consequences of employer default
- Manage the valuation process in consultation with the Fund's Actuary
- Prepare and maintain a FSS and an Investment Strategy Statement ("ISS), both after proper consultation with interested parties
- Monitor all aspects of the Fund's performance and funding, amending the FSS/ISS as necessary
- Establish a policy around exit payments and payment of exit credits/debts in relation to employer exits
- Effectively manage any potential conflicts of interest arising from its dual role as both Fund administrator and a scheme employer
- Enable the Local Pension Board (LPB) to review the valuation and FSS review process as set out in their terms of reference

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

**The Individual Employer should:**

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

**The Fund Actuary should:**

- Prepare valuations including the setting of employers' contribution rates at a level aiming to ensure Fund solvency and long-term cost efficiency based on assumptions set by the Administering Authority and having regard to its FSS and the LGPS Regulations
- Provide advice so the Fund can set the necessary assumptions for the valuation

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

**A Guarantor should:**

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

**Pensions Committee**

The Pensions Committee is responsible for taking decisions on funding, risk and investment strategy and approval of material decisions and policies which have been developed by Fund Officers after taking advice from the Fund actuary, investment, legal and covenant advisers as may be applicable in the circumstances. This will include, but is not limited to, the following:

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

### **Local Pension Board**

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

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

## **APPENDIX I: GLOSSARY OF TERMS**

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### **Actuarial Valuation**

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

### **Administering Authority**

The council with a statutory responsibility for running the Fund and that is responsible for all aspects of its management and operation. This is Westmorland and Furness Council in relation to the Cumbria Local Government Pension Scheme.

### **Admission Bodies**

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

### **Admission Agreement**

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

### **Assumptions**

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

### **Benchmark**

A measure against which Fund performance is to be judged.

### **Benefits**

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

The Fund is a defined benefit arrangement with principally final salary related benefits from contributing members up to 1 April 2014 and Career Averaged Revalued Earnings (“CARE”) benefits earned thereafter. There is also a “50:50 Scheme Option”,

where members can elect to accrue 50% of the full scheme benefits in relation to the member only and pay 50% of the normal member contribution.

### **Best Estimate Assumption**

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

### **Bonds**

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

### **Buffer**

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

### **Career Average Revalued Earnings (CARE) Scheme**

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

### **CMI**

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

### **Code of Practice**

The Pensions Regulator's General Code of Practice.

### **CPI**

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

## **CPIH**

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

## **Contingent Assets**

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

## **Covenant**

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

## **Data (Section 13)**

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

## **Debt Spreading Arrangement (DSA)**

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

## **Deferred Debt Agreement**

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

## **Deferred Employer**

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

## **Deficit**

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

## **Deficit Recovery Period**

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

## **Discount Rate**

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

## **Early Retirement Strain**

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

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

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

## **Employing Bodies**

Scheme employers that participate in the LGPS.

## **Equities**

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

## **Exit Credit**

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

## **Funding or Solvency Level**

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

## **Funding Strategy Statement (FSS)**

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

## **Fund valuation date**

The effective date of the triennial Fund valuation.

## **Gilts**

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

## **Government Actuary's Department (GAD)**

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

## **Guarantee / guarantor**

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

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

## **Guarantee of last resort**

For the purposes of the FSS, a guarantee of last resort refers to the situation where an employer has exhausted all alternative options for payment of an exit debt and so the debt is recovered from another employer in the Fund, however the liabilities are not subsumed in this case.

## **Hedging**

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

## **Index linked gilts**

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

## **Investment strategy**

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

## **Letting employer**

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

## **LGPS**

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

## **Liabilities**

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

## **Liability driven investments (LDI)**

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

## **Local Pension Board**

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

## **Long-term cost efficiency**

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

## **Mandatory scheme employers**

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

## **Maturity**

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

## **McCloud Judgment**

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

## **Members**

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

## **MHCLG**

Ministry of Housing, Communities & Local Government

### **Low risk funding basis**

An approach where the discount rate used to assess the liabilities is determined based on the market yields of Government bond investments based on the appropriate duration of the liabilities being assessed. This can be used as a benchmark to assess the level of reliance on future investment returns in the funding strategy and therefore the level of risk appetite in a Funds choice of investment strategy.

### **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.

### **Orphan liabilities**

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

### **Pass-through arrangement**

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

### **Pension Committee**

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

### **Pensions Administration Strategy**

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

## **Percentiles**

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

## **Phasing/stepping of contributions**

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

## **Pooling**

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

## **Prepayment**

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

## **Present Value**

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

## **Primary rate of the employer's contribution**

See definition of Employer's Primary Contribution Rate.

## **Profile**

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

## **Prudent assumption**

An assumption where the outcome has a greater than 50/50 chance of being achieved i.e. the outcome is more likely to be overstated than understated. Legislation and

Guidance requires the assumptions adopted for an actuarial valuation to be sufficiently prudent.

### **Rates and adjustments certificate**

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

### **Real return or real discount rate**

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

### **Recovery plan**

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

### **SAB funding basis or SAB basis**

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

### **Scheme employers**

Organisations that participate in the Fund.

### **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.

## **Section 13 Valuation**

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

### **Secondary rate of the employer's contribution**

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

### **Solvency funding target**

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

### **Strain costs**

The costs arising when a members retire before their normal retirement date and receive their pensions immediately without actuarial reduction. So far as the Fund is concerned, where the retirements are not caused by ill-health, these costs are invoiced directly to the retiring member's employer at the retirement date and treated by the Fund as additional contributions. The costs are calculated by the Actuary.

### **50/50 Scheme**

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

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